BANK ALBILAD
(A Saudi Joint Stock Company)

Consolidated Financial Statements
For the year ended December 31, 2020

KPMG Al Fozan & Partners
Certified Public Accountants

Building a better working world

Independent auditors' report to the shareholders of Bank Albilad

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Bank Albilad ("the Bank") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organisation for Certified Public Accountants ("SOCPA") (collectively referred to as "the IFRS as endorsed in the Kingdom of Saudi Arabia").

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current 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.

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Independent auditors' report to the shareholders of Bank Albilad (continued)

Report on the audit of the consolidated financial statements (continued)

Key audit matters (continued)

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>
Expected credit loss allowance against financing
As at 31 December 2020, the gross financing of the Group amounted to SAR 72.47 billion against which an expected credit loss ("ECL") allowance of SAR 2.36 billion was recorded.
We considered this as a key audit matter, as the determination of ECL involves significant management judgement and this has a material impact on the consolidated financial statements of the Group. Furthermore, the COVID-19 pandemic has resulted in heightened uncertainty regarding the economic outlook and hence, has increased the level of judgement needed to determine the ECL. The key areas of judgement include:
1. Categorisation of loans into Stages 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 / defaulted exposures.
The Group has applied additional judgements to identify and estimate the likelihood of borrowers that may have experienced SICR despite the various government support programs that resulted in deferrals to certain counterparties. The deferrals were not deemed to have triggered SICR by themselves.
2. Assumptions used in the ECL model for determining the probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD") including but not limited to assessment of financial condition of counterparty, expected future cash flows and developing and incorporating forward looking assumptions, macroeconomic factors and the associated scenarios and expected probabilities weightages.
</td><td>
■ We obtained and updated our understanding of management's assessment of ECL allowance against financing including the Group's internal rating model, accounting policy, model methodology including any key changes made in light of the COVID-19 pandemic.
■ We compared the Group's accounting policy for ECL allowance and the ECL methodology with the requirements of IFRS 9 Financial Instruments.
■ We assessed the design and implementation, and tested the operating effectiveness of the key controls (including relevant IT general and application controls) over:
• the ECL model, including governance over the model and its validation including approval of key assumptions and overlays;
• the classification of borrowers into various stages and timely identification of SICR and the determination of default / individually impaired exposures;
• the IT systems and applications underpinning the ECL model; and
• the data inputs into the ECL model.
■ For a sample of customers, we assessed:
• the internal ratings determined by management based on the Group's internal rating model and considered these assigned ratings in light of the external market conditions and available industry information in particular, with reference to the impacts of the COVID-19 pandemic and also assessed that these were consistent with the ratings used as input in the ECL model;
• the staging as identified by management; and
• management's computations for ECL.
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Independent auditors' report to the shareholders of Bank Albilad (continued)

Report on the audit of the consolidated financial statements (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Expected credit loss allowance against financing (continued) 3. The need to apply overlays using expert credit judgement to reflect all relevant risk factors that might not be captured by the ECL model. Application of these judgements, particularly in light of the global pandemic, have given rise to greater estimation uncertainty and the associated audit risk around ECL calculations as at 31 December 2020. *Refer to the summary of significant accounting policies note 3 for the impairment of financial assets; note 2 (e) which contains the disclosure of critical accounting judgements, estimates and assumptions relating to ECL on financial assets and the impairment assessment methodology used by the Group; note 8 which contains the disclosure of allowance for expected credit losses against financing; and note 29 for details of credit quality analysis and key assumptions and factors considered in determination of ECL.*	▪ We assessed the appropriateness of the Group's criteria for the determination of SICR and identification of "default" or "individually impaired" exposures; and their classification into stages. Furthermore, for a sample of exposures, we assessed the appropriateness of the staging classification of the Group's financing portfolio including for customers who were eligible for deferral of instalments under government support programs with specific focus on customers operating in sectors most affected by the COVID-19 pandemic. ▪ We assessed the governance process implemented and the qualitative factors considered by the Group when applying any overlays or making any adjustment to the output from the ECL model, due to data or model limitations or otherwise. ▪ We assessed the reasonableness of the underlying assumptions used by the Group in the ECL model including forward looking assumptions keeping in view the uncertainty and volatility in economic scenarios due to the COVID 19 pandemic. ▪ We tested the completeness and accuracy of data underpinning the ECL calculations as at 31 December 2020. ▪ Where relevant, we involved our specialists to assist us in reviewing model calculations, evaluating inputs and assessing reasonableness of assumptions used in ECL model particularly around the macroeconomic variables, forecasted macroeconomic scenarios and probability weights and of assumptions underpinning the overlays. ▪ We assessed the adequacy of disclosures in the consolidated financial statements.

Independent auditors' report to the shareholders of Bank Albilad (continued)

Report on the audit of the consolidated financial statements (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
SAMA support program and related government grant In response to the COVID-19 pandemic, the Saudi Central Bank ("SAMA") launched a number of initiatives including the liquidity support programme for banks and the Private Sector Financing Support Program ("PSFSP"). The PSFSP was launched in March 2020 to provide the necessary support to the Micro Small and Medium Enterprises ("MSME"). The PSFSP included the deferred payments program whereby the Group deferred the instalments payable by MSMEs during a period from 14 March 2020 to 31 March 2021. In order to compensate the Group with respect to the losses incurred in connection with the above PSFSP and for the liquidity support programme, the Group received various profit-free deposits of varying maturities amounting in aggregate to SAR 4.7 billion as at 31 December 2020. The difference between the market value of deposits calculated using market rates of deposits of similar size and tenure, and the profit-free deposits has been considered as a government grant and accounted for in accordance with the International Accounting Standard 20: *Government Grants* ("IAS 20"). We considered the accounting treatment of the SAMA support programme and government grant as a key audit matter because: ▪ These represent significant events and material transactions that occurred during the period and thereby required significant auditors' attention; and ▪ the recognition and measurement of government grant involved significant management judgement including but not limited to: • determining the appropriate discount rate to be used to calculate the grant income on the deposit; and • identifying the objective of each individual deposit to determine the timing of recognition of the grant. *Refer to the significant accounting policies note 3 to the consolidated financial statements which details the government grant accounting policy; note 2 (e) which contains the disclosure of critical accounting judgements, estimates and assumptions relating to the government grant recognition and note 37 which contains the disclosure of SAMA support programs and details of the government grant received over the year from SAMA.*	▪ We obtained an understanding of the various programs and initiatives taken by SAMA and considered the objectives of the various deposits received by the Group in order to assess whether the IAS 20 criteria were met for government grant recognition. ▪ We inspected the details of the deposit amounts received during the year by the Group. ▪ We assessed the reasonableness of the relevant discount rate used for the computation of the government grant. ▪ We tested the accuracy of the government grant computation and assessed the basis for the timing of recognition of the government grant being at a point in time or over a period thereby matching the expense / related costs for which the government grant was intended to compensate. ▪ We assessed the adequacy of the disclosures included by management in the consolidated financial statements in relation to government grant as required by IAS 20.

Independent auditors' report to the shareholders of Bank Albilad (continued)

Report on the audit of the consolidated financial statements (continued)

Other information included in the Group's 2020 annual report

Management is responsible for the other information. Other information consists of the information included in the Group's 2020 annual report, other than the consolidated financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

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

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

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

Those charged with governance, the Board of Directors, 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 the International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent auditors' report to the shareholders of Bank Albilad (continued)

Report on the audit of the consolidated financial statements (continued)

Auditors' responsibilities for the audit of the consolidated financial statements (continued)

As part of an audit in accordance with the International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement 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 control 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 control.

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

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

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

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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

KPMG Al Fozan & Partners
Certified Public Accountants

Independent auditors' report to the shareholders of Bank Albilad (continued)

Report on the audit of the consolidated financial statements (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 most significance in the audit of the consolidated financial statements of the current year 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 By-Laws in so far as they affect the preparation and presentation of the consolidated financial statements for the year ended 31 December 2020.

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3 Rajab 1442H
(15 February 2021)

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CR 46
KPMG
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KPMG Al Fozan & Partners

شركة ارنست ويونغ وشركاهم محاسبون قانونيون
EY
ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45
ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS

BANK ALBILAD
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2020 AND 2019

	Note	**2020 SAR' 000**	2019 SAR' 000
ASSETS			
Cash and balances with central banks	5	**5,745,353**	7,915,852
Due from banks and other financial institutions, net	6	**2,179,430**	4,041,404
Investments, net	7	**14,873,185**	10,988,226
Financing, net	8	**70,114,980**	59,290,537
Property, equipment and right of use assets, net	9	**1,896,092**	1,866,329
Other assets	10	**934,752**	1,901,084
Total assets		**95,743,792**	86,003,432
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks, central bank and other financial institutions	11	**5,402,930**	645,120
Customers' deposits	12	**71,552,889**	67,105,543
Sukuk	13	**2,004,876**	2,007,768
Other liabilities	14	**6,052,694**	6,819,078
Total liabilities		**85,013,389**	76,577,509
Equity			
Share capital	15	**7,500,000**	7,500,000
Treasury shares		**(70,527)**	(80,660)
Statutory reserve	16	**648,065**	310,935
Other reserves	18	**886,569**	568,280
Retained earnings		**1,755,951**	1,118,890
Employees' share plan reserve		**10,345**	8,478
Total equity		**10,730,403**	9,425,923
Total liabilities and equity		**95,743,792**	86,003,432

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements

BANK ALBILAD
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	Note	**2020 SAR' 000**	2019 SAR' 000
INCOME:			
Income from investing and financing assets	20	**3,626,568**	3,461,992
Return on deposits and financial liabilities	21	**(333,936)**	(638,229)
Income from investing and financing assets, net		**3,292,632**	2,823,763
Fee and commission, net	22	**627,395**	676,632
Exchange income, net		**362,194**	313,788
Dividend income		**15,465**	23,004
(Loss)/ gain on fair value through profit or loss (FVTPL) investments, net		**(64,447)**	54,496
Other operating income		**28,808**	53,664
Total operating income		**4,262,047**	3,945,347
EXPENSES:			
Salaries and employee related expenses	23	**1,164,756**	1,146,785
Depreciation and amortisation	9	**260,425**	248,924
Other general and administrative expenses		**640,665**	619,822
Operating expenses before expected credit losses		**2,065,846**	2,015,531
Impairment charge for expected credit losses, net		**694,511**	543,093
Total operating expenses		**2,760,357**	2,558,624
Net income for the year before zakat		**1,501,690**	1,386,723
Zakat for the year		**153,172**	142,983
Net income for the year after zakat		**1,348,518**	1,243,740
Basic and diluted earnings per share (SAR)	25	**1.81**	1.67

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

BANK ALBILAD
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	Note	**2020** **SAR' 000**	2019 SAR' 000
Net income for the year		**1,348,518**	1,243,740
Other comprehensive income:			
Items that will not be reclassified to the consolidated statement of income in subsequent periods			
- Net changes in fair value of FVOCI (equity instruments)		**(25,548)**	36,330
- Re-measurement of employees "End of Service Benefits ("EOSB")	27	**(1,069)**	3,486
Items that may be reclassified to consolidated statement of income in subsequent periods			
- Net changes in fair value of FVOCI (debt instruments)		**345,579**	600,940
Total other comprehensive income for the year		**318,962**	640,756
Total comprehensive income for the year		**1,667,480**	1,884,496

The accompanying notes 1 to 39 form integral part of these consolidated financial statements.

BANK ALBILAD
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

2020 SAR' 000	Note	Share capital	Treasury shares	Statutory reserve	Other reserves	Retained earnings	Employees' share plan reserve	Total equity
Balance at the beginning of the year		**7,500,000**	**(80,660)**	**310,935**	**568,280**	**1,118,890**	**8,478**	**9,425,923**
Net changes in fair value of FVOCI (equity instruments)					**(25,548)**			**(25,548)**
Re-measurement of employees "End of Service Benefits ("EOSB")	27				**(1,069)**			**(1,069)**
Net changes in fair value of FVOCI (debt instruments)					**345,579**			**345,579**
Total other comprehensive income					**318,962**			**318,962**
Net income for the year						**1,348,518**		**1,348,518**
Total comprehensive income for the year					**318,962**	**1,348,518**		**1,667,480**
Realized gain from sale of FVOCI investments (equity instruments)					**(673)**	**673**		**-**
Treasury shares			**10,133**				**(10,133)**	**-**
Employees' share plan reserve							**12,000**	**12,000**
Cash dividends	17					**(375,000)**		**(375,000)**
Transfer to statutory reserve	16			**337,130**		**(337,130)**		**-**
Balance at end of the year		**7,500,000**	**(70,527)**	**648,065**	**886,569**	**1,755,951**	**10,345**	**10,730,403**

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

BANK ALBILAD
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

2019 SAR' 000	Note	Share capital	Treasury shares	Statutory reserve	Other reserves	Retained earnings	Proposed issuance of bonus shares	Employees' share plan	Total equity
Balance at the beginning of the year		6,000,000	(90,780)	-	(69,832)	483,441	1,500,000	10,120	7,832,949
Net changes in fair value of FVOCI (equity instruments)					36,330				36,330
Re-measurement of employees "End of Service Benefits ("EOSB")	27				3,486				3,486
Net changes in fair value of FVOCI (debt instruments)					600,940				600,940
Total other comprehensive income					640,756				640,756
Net income for the year						1,243,740			1,243,740
Total comprehensive income for the year					640,756	1,243,740			1,884,496
Realized gain from sale of FVOCI investments (equity instruments)					(2,644)	2,644			-
Treasury shares			10,120					(10,120)	-
Employees' share plan reserve								8,478	8,478
Cash dividends	17					(300,000)			(300,000)
Issuance of bonus shares	15	1,500,000					(1,500,000)		-
Transfer to statutory reserve	16			310,935		(310,935)			-
Balance at end of the year		7,500,000	(80,660)	310,935	568,280	1,118,890	-	8,478	9,425,923

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

BANK ALBILAD
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	Note	2020 SAR' 000	2019 SAR' 000
OPERATING ACTIVITIES			
Net income for the year before zakat		**1,501,690**	1,386,723
Adjustments to reconcile net income to net cash from / (used in) operating activities:			
Return on sukuk	21	**70,406**	95,391
Loss/ (gains) on FVTPL investments, net		**64,447**	(54,496)
(Gains)/ loss from disposal of property and equipment, net		**(88)**	3,365
Depreciation and amortization	9	**260,425**	248,924
Impairment charge for expected credit losses, net		**694,511**	543,093
Employees' share plan		**12,000**	8,478
Net (increase) / decrease in operating assets:			
Statutory deposit with central bank		**(450,752)**	(402,071)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		**1,332,053**	(299,744)
Bai Alajel with central bank maturing after ninety days from the date of acquisition		**297,403**	(299,582)
Financing		**(11,513,975)**	(9,194,330)
Other assets		**966,332**	(1,238,516)
Net increase / (decrease) in operating liabilities:			
Due to banks, central bank and other financial institutions		**4,757,810**	(2,455,671)
Customers' deposits		**4,447,346**	9,929,949
Other liabilities		**(837,726)**	2,581,462
Net cash from operating activities		**1,601,882**	852,975
INVESTING ACTIVITIES			
Proceeds/ (purchase) of investments held as FVOCI		**241,752**	(2,622,631)
(Purchase) of investments held as FVTPL		**(4,827)**	(411,713)
(Purchase) of investments held as amortized cost		**(3,868,653)**	(800,211)
(Purchase) of property and equipment		**(258,810)**	(286,332)
Net cash (used in) investing activities		**(3,890,538)**	(4,120,887)
FINANCING ACTIVITIES			
Distributed Sukuk profit		**(73,298)**	(96,210)
Dividend paid	17	**(375,000)**	(300,000)
Payment of lease liabilities		**(114,189)**	(152,972)
Net cash (used in) financing activities		**(562,487)**	(549,182)
Net decrease in cash and cash equivalents		**(2,851,143)**	(3,817,094)
Cash and cash equivalents at the beginning of the year		**5,757,872**	9,574,966
Cash and cash equivalents at the end of the year	26	**2,906,729**	5,757,872
Supplemental information			
Income received from investing and financing assets during the year		**3,758,685**	3,369,662
Return paid on deposits and financial liabilities during the year		**379,964**	632,116

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements

1. GENERAL

a) Incorporation and operation

Bank Albilad ("the Bank"), a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia, was formed and licensed pursuant to Royal Decree No. M/48 dated 21 Ramadan 1425H (corresponding to November 4, 2004) in accordance with the Counsel of Ministers' resolution No. 258 dated 18 Ramadan 1425H (corresponding to November 1, 2004). The Bank operates under Commercial Registration No.1010208295 dated 10 Rabi Al Awwal 1426H (corresponding to April 19, 2005). The Bank provides these services through 111 banking branches (December 31, 2019: 110) and 177 exchange and remittance centers (December 31, 2019: 179) in the Kingdom of Saudi Arabia.

The registered address of the Bank's head office is as follows:

Bank Albilad
P.O. Box 140
Riyadh 11411
Kingdom of Saudi Arabia

These consolidated financial statements comprise the financial statements of the Bank and its subsidiaries, "Albilad Investment Company" and "Albilad Real Estate Company" (collectively referred to as "the Group"). Albilad Investment Company and Albilad Real Estate Company are 100% owned by the Bank. All subsidiaries are incorporated in the Kingdom of Saudi Arabia.

The Group's objective is to provide full range of banking and investment services and conduct, financing and investing activities through various Islamic instruments. The activities of the Bank are conducted in compliance with the Shariah Committee resolutions and directions and within the provisions of the Bank's By-laws and the Banking Control Law.

b) Shariah Authority

The Bank has established a Shariah Authority ("the Authority"). It ascertains that all the Bank's activities are subject to its approval and control.

2. BASIS OF PREPARATION

a) Statement of Compliance

The consolidated financial statements of the Group have been prepared:

- in accordance with the 'International Financial Reporting Standards (IFRS)' as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA); and

- in compliance with the provisions of the Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and the By-laws of the Bank.

The consolidated financial statements of the Group as at and for the year ended 31 December 2020 and 31 December 2019, were prepared in compliance with the International Financial Reporting Standards ("IFRS"), and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA") and the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia.

b) Basis of measurement and presentation

The consolidated financial statements are prepared on going concern basis under the historical cost convention except for the financial instruments held at Fair Value through Profit or Loss (FVTPL), Fair Value through Other Comprehensive Income (FVOCI) investments and defined benefit obligations.

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

c) Going concern

In making the going concern assessment, the Bank has considered a wide range of information relating to present and future projections of profitability, cash flows and other capital resources etc.

d) Functional and presentation currency

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

e) Critical accounting judgements, estimates and assumptions

The preparation of the consolidated financial statements in conformity with IFRS as endorsed in the KSA and other standards and pronouncements issued by SOCPA, requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Such judgements, estimates, and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances.

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

Recently, number of COVID-19 vaccines have been developed and approved for mass distribution by various governments around the world. The Government has also approved a vaccine which is currently available for healthcare workers and certain other categories of people and it will be available to the masses in general during 2021. Despite the fact that there are some uncertainties around the COVID-19 vaccine such as how long the immunity last, whether vaccine will prevent transmission or not etc.; however, the testing results showed exceptionally high success rates. Hence, the Group continues to be cognisant of both the micro and macroeconomic challenges that COVID-19 has posed, the teething effects of which may be felt for some time, and is closely monitoring its exposures at a granular level. The Group has made various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 December 2020 about future events that the Group believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these estimates. The underlying assumptions are also subject to uncertainties which are often outside the control of the Group. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses and fair value measurement.

The impact of the COVID-19 pandemic on each of these estimates is discussed further in the relevant note of these financial statements.

Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

i- Expected credit losses ("ECL") on financial assets

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

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

1. The selection of an estimation technique or modelling methodology, covering below key judgements and assumptions:

   a) The Bank's internal credit grading model, which assigns Probability of default (PD) to the individual grades;
   b) The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment;
   c) The segmentation of financial assets when their ECL is assessed on a collective basis;
   d) Development of ECL models, including the various formulas and the choice of inputs; and
   e) Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

2. The selection of inputs for those models, and the interdependencies between those inputs such as macroeconomic scenarios and economic inputs.

ii- Fair value measurement (note 32).
iii- Impairment of FVOCI debt investments (note 7).
iv- Classification of investments at amortised cost (note 3).
v- Determination of control over investees (note 3).
vi- Depreciation and amortization (note 9).
vii- Defined benefit plan (note 27).
viii- Government grant (note 3).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Change in accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2019 . Based on the adoption of new standard and in consideration of current economic environment, the following accounting policies are applicable effective January 1, 2020 replacing, amending or adding to the corresponding accounting policies set out in 2019 annual consolidated financial statements.

New standards, interpretations and amendments adopted by the Group

Below amendments to accounting standards and interpretations became applicable for annual reporting periods commencing on or after January 1, 2020. The management has assessed that the amendments have no significant impact on the Group's consolidated financial statements.

- Amendments to IFRS 3: Definition of a Business.
- Amendments to IAS 1 and IAS 8: Definition of Material.
- Amendments to References to the Conceptual Framework in IFRS Standards.
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform.

Accounting Standards issued but not yet effective

- COVID-19 – Related Rent Concessions (Amendments to IFRS 16).
- IFRS 17 – "Insurance contracts", applicable for the period beginning on or after January 1, 2023.
- Amendments to IAS 1 – "Classification of Liabilities as Current or Non-current", applicable for the period beginning on or after January,1, 2022.
- Onerous contracts – Cost of Fulfilling a contract (Amendments to IAS 37).
- Interest Rate Benchmark Reform – Phase 2 (amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16).
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).
- Reference to Conceptual Framework (Amendments to IFRS 3).

- **Classification of financial assets**

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

Financial Asset at amortised cost

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

- 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 profit on the principal amount outstanding.

Financial Asset at FVOCI

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

- 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 profit on the principal amount outstanding.

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

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

Financial Asset at FVTPL

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI or 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;
- How the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case’ scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank dose 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 going forward.

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

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

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

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

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

Designation at fair value through profit or loss

At initial recognition, the Bank has designated certain financial assets at FVTPL. Before January 1, 2019, the Bank also designated certain financial assets as at FVTPL because the assets were managed, evaluated and reported internally on a fair value basis.

- **Classification of financial liabilities**

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost.

- **Derecognition**

  - **Financial assets**

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

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

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

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

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

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

- **Financial liabilities**

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

- **Modifications of financial assets and financial liabilities**

- **Financial assets**

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

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

- **Financial liabilities**

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

- **Impairment**

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

- Financial assets that are measured at amortised cost;
- Debt instruments assets measured at FVOCI;
- Financial guarantee contracts issued; and
- Financing commitments issued.

No impairment loss is recognized on FVOCI equity investments.

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

- 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.

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

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

Measurement of ECL

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

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

Restructured financial assets

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

- If the expected restructuring will not result in derecognition of the existing asset, and 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 profit rate of the existing financial asset.

Credit-impaired financial assets

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

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

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

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

- The rating agencies' assessments of creditworthiness;
- the country's ability to access the capital markets for new debt issuance; and
- the probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

Presentation of allowance for ECL in the statement of financial position

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

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

Write-off

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

- **Financial guarantees and financing commitments**

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

Financial guarantees issued or commitments to provide a loan at a below-market profit 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 as follows:

- at the higher of this amortized amount and the amount of loss allowance; and

The Bank has issued no financing commitments that are measured at FVTPL. For other financing commitments:

- the Bank recognizes loss allowance.

- **Government grant**

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

- **Revenue / expenses recognition**

  - **Income on investing and financing assets, and return on financial liabilities**

Income on investing and financing assets, and return on financing liabilities is recognized in the consolidated statement of income using the effective yield method on the outstanding balance over the term of the contract.

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

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

  - **Measurement of amortized cost and special commission income**

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

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

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

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

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

- **Rendering of services**

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

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

- **Customer loyalty program**

The Bank offers customer loyalty program (reward points) which allows card members to earn points that can be redeemed for certain Partner outlets. The Bank allocates a portion of transaction price (interchange fee) to the reward points awarded to card members, based on the relative stand-alone selling price.

The amount of revenue allocated to reward points is deferred and released to the income statement when reward points are redeemed.

The cumulative amount of contract liability related unredeemed reward points is adjusted over time based on actual experience and current trends with respect to redemption.

4. BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the bank and its subsidiaries as set forth in note 1. The financial statements of subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies.

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, 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 subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

The consolidated financial statements have been prepared using uniform accounting policies and valuation methods for like transactions and other events in similar circumstances. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

- **Foreign currencies**

The Group's consolidated financial statements are presented in Saudi Arabian Riyals, which is also the Bank's and group companies' functional currency.

Transactions in foreign currencies are translated into Saudi Arabian Riyals at spot rates prevailing transactions dates. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at exchange rates prevailing at the reporting date.

Realized and unrealized gains or losses on exchange are credited or charged to the consolidated statement of income.

- **Revenue / expenses recognition**

- **Exchange income / (loss)**

Exchange income/ (loss) is recognized as detailed in foreign currencies policy above.

- **Fees and commission income**

Fees and commission income and expenses that are integral to the effective yield rate on a financial assets or financial liability are included in the income from investing and financing assets.

Fees and commission income and expense that are not integral part of the effective yield calculation on a financial asset or liability are recognized when the related service is provided as follows:

- Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually over the period of time.
- Fee received on asset management, wealth management, financial planning, 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 at point in time when the performance criteria are fulfilled.
- Financing commitment fees for financing that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective yield on the financing at a point in time when the performance obligation is fulfilled. When a financing commitment is not expected to result in the draw-down of a financing, financing 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, which are expensed as the transaction is completed or the service, is received.

- **Dividend income**

Dividend income from investment is recognized when the Group's right to receive the dividend is established.

Fair value measurement

The Group measures financial instruments, such as, equity instruments and non-financial assets, at fair value at each statement of financial position date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 32.

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 the Group.

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

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

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

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

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

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

Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The Bank's accounting policy for collateral assigned to it through its financing arrangements under IFRS 9 is the same is it was under IAS 39. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a periodic basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

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

Collateral repossessed

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

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

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

- **Property and equipment**

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

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

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

Building	33 years
Leasehold improvements	Over lease period or economic life (10 years), whichever is shorter
Equipment and furniture and motor vehicles	4 to 6 years
Computer hardware	5 years

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

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

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

- **Provisions**

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

Provisions for liabilities and charges

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

- **Accounting for leases**

- **Right of Use ("RoU") Asset / Lease liability**

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

- **Right of Use Asset**

The Bank applies cost model and measures the right of use asset at cost:

a) Less any accumulated depreciation and any accumulated impairment losses; and
b) Adjusted for any re-measurement of the lease liability for lease modifications.

Generally, the RoU asset would equate the lease liability. However, if there are additional costs such as site preparation, non-refundable deposits, application money, other expenses related to transactions etc. these need to be added to the RoU asset value.

- **Lease liability**

On initial recognition, the lease liability is the present value of all remaining payments to the lessor.

After the commencement date, the Bank measures the lease liability by:

1. Increasing the carrying amount to reflect the interest on the lease liability;
2. Reducing the carrying amount to reflect the lease payments made; and
3. Re-measuring the carrying amount to reflect any re-assessment or any lease modification.

Short-term leases and leases of low-value assets

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

- **Cash and cash equivalents**

For the purpose of the consolidated statement of cash flows, cash and cash equivalents include cash in hand, balances and murabaha with central bank excluding statutory deposit, and due from banks and other financial institutions with original maturities of three months or less from the date of acquisition which is subject to insignificant changes in their fair value.

- **Treasury shares**

Treasury shares are recorded at cost and presented as a deduction from the equity as adjusted for any transaction costs, dividends and gains or losses on sale of such stocks. Subsequent to their acquisition, these shares are carried at the amount equal to the consideration paid.

These shares are acquired by the Bank with the approval of central bank, primarily for discharging its obligation under its share-based payment plans.

- **Employees' share plan**

The Bank offers its eligible employees an equity-settled share-based payment plan as approved by central bank. As per the plan, eligible employees of the Bank are offered stocks to be withheld out of their annual bonus payments.

The cost of the plan is measured by reference to the fair value at the date on which the stocks are granted.

The cost of the plan is recognized over the period in which the service condition is fulfilled, ending on the date on which the relevant employees become fully entitled to the stock option ('the vesting date'). The cumulative expense recognized for the plan at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the Bank's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated statement of income for a year represents the movement in cumulative expense recognized as at the beginning and end of that year.

The Bank, with the approval from central bank, has entered into an agreement with an independent third-party for custody of the shares under the plan, plus any benefits accrued there-on.

- **Defined benefit plan**

The Bank operates an end of service benefit plan for its employees based on the prevailing Saudi Labor laws. The liability is being accrued based on projected unit method in accordance with the periodic actuarial valuation.

- **Short term employee benefits**

Short term employee benefits are measured on an undiscounted basis and is 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 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.

- **Zakat and withholding tax**

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

Withholding tax is withheld from payments made to non-resident vendors for services rendered and goods purchased according to the tax law applicable in Saudi Arabia and are directly paid to the GAZT on a monthly basis.

- **Investment management services**

The Group offers investment services to its customers, through its subsidiary, which include management of certain investment funds in consultation with professional investment advisors.The Group's share of these funds is included in the FVTPL investment 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.

- **Islamic banking products**

Financing comprises of Bei-ajel, Installment Sales, Musharakah, and Ijarah originated or acquired by the Group and are initially recognized at fair value including acquisition costs and is subsequently measured at amortized cost less any amounts written off and the allowance for expected credit losses, if any. Financing is recognized when cash is advanced to borrowers, and is derecognized when either the customers repay their obligations, or the financing is sold or written off, or substantially all the risks and rewards of ownership are transferred.

Bei-ajel and installment sales are financing contracts based on Murabaha whereby the Group sells to customers 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. Bei ajel is used for corporate customers whereas installment sale is used for retail customers.

Ijarah muntahia bittamleek is an agreement whereby the Group, acting as a lessor, purchases or constructs an asset for lease according to the customer (lessee) request, based on his promise to lease the asset for an agreed rent and for a specific period. Ijarah could end by transferring the ownership of the leased asset to the lessee.

Musharakah is an agreement between the Group and a customer to contribute to a certain investment enterprise or the ownership of a certain property ending up with the acquisition by the customer of the full ownership. The profit or loss is shared as per the terms of the agreement.

5. CASH AND BALANCES WITH CENTRAL BANKS

	Note	**2020 SAR' 000**	2019 SAR' 000
Statutory deposit	**5.1**	**4,004,124**	3,553,372
Cash in hand		**1,582,322**	1,669,426
Other balances	**5.2**	**158,907**	2,693,054
Total		**5,745,353**	7,915,852

5.1 In accordance with the Banking Control Law and Regulations issued by central bank, the Bank is required to maintain a statutory deposit with central bank at stipulated percentages of its demand, saving, time and other deposits, calculated based on end of day monthly average balance. The statutory deposit with central bank is not available to finance the Bank's day to day operations and therefore is not part of cash and cash equivalents.

5.2 This includes mainly cash management account with central bank.

6. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS, NET

	2020 SAR' 000	2019 SAR' 000
Demand	**575,467**	210,763
Commodity murabaha	**1,604,743**	3,832,058
	2,180,210	4,042,821
Less : loss allowance	**(780)**	(1,417)
Total	**2,179,430**	4,041,404

An analysis of changes in loss allowance for Due from banks and other financial institutions is, as follows:

31st December 2020 SAR in '000'	**12 month ECL**	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Loss allowance as at 1 January 2020	**1,417**	**-**	**-**	**1,417**
Transfers to 12 month ECL	**-**	**-**	**-**	**-**
Transfers to Life time ECL not credit impaired	**-**	**-**	**-**	**-**
Transfers to Life time ECL credit impaired	**-**	**-**	**-**	**-**
Net reversal for the year	**(637)**	**-**	**-**	**(637)**
Write-offs	**-**	**-**	**-**	**-**
Loss allowance as at 31 December 2020	**780**	**-**	**-**	**780**

31st December 2019 SAR in '000'	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Loss allowance as at 1 January 2019	1,886	-	90,923	92,809
Transfers to 12 month ECL	-	-	-	-
Transfers to Life time ECL not credit impaired	-	-	-	-
Transfers to Life time ECL credit impaired	-	-	-	-
Net reversal for the year	(469)	-	-	(469)
Write-offs	-	-	(90,923)	(90,923)
Loss allowance as at 31 December 2019	1,417	-	-	1,417

7. INVESTMENTS, NET

a) Investments as at December 31 comprise the following:

	2020				
	Domestic		International		Total
	Quoted SAR' 000	Unquoted SAR' 000	Quoted SAR' 000	Unquoted SAR' 000	SAR' 000
Fair Value Through Other Comprehensive Income (FVOCI)					
Equities	**298,855**	**167,143**	**-**	**-**	**465,998**
Sukuk	**660,677**	**6,905,826**	**74,705**	**-**	**7,641,208**
	959,532	**7,072,969**	**74,705**	**-**	**8,107,206**
Fair value through profit or loss (FVTPL)					
Mutual funds	**307,718**	**366,470**	**-**	**132,484**	**806,672**
Amortized Cost					
Bai Alajel with central bank	**-**	**1,295,422**	**-**	**-**	**1,295,422**
Sukuk	**1,899,386**	**2,309,777**	**204,969**	**249,753**	**4,663,885**
	1,899,386	**3,605,199**	**204,969**	**249,753**	**5,959,307**
Total	**3,166,636**	**11,044,638**	**279,674**	**382,237**	**14,873,185**

	2019				
	Domestic		International		Total
	Quoted SAR' 000	Unquoted SAR' 000	Quoted SAR' 000	Unquoted SAR' 000	SAR' 000
Fair Value Through Other Comprehensive Income (FVOCI)					
Equities	291,550	165,876	-	-	457,426
Sukuk	623,339	6,627,199	72,030	248,933	7,571,501
	914,889	6,793,075	72,030	248,933	8,028,927
Fair value through profit or loss (FVTPL)					
Mutual funds	326,443	395,170	-	144,679	866,292
Amortized Cost					
Bai Alajel with central bank	-	1,292,796	-	-	1,292,796
Sukuk	280,825	332,071	187,315	-	800,211
	280,825	1,624,867	187,315	-	2,093,007
Total	1,522,157	8,813,112	259,345	393,612	10,988,226

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

	2020 **SAR' 000**	2019 SAR' 000
Government and quasi government	**11,897,000**	7,708,424
Corporate	**2,976,185**	3,279,802
Total	**14,873,185**	10,988,226

c) Equities include unquoted shares of SAR 167 million (2019: SAR 166 million) carried at cost as management believes that cost of such investments approximate their fair value. Management also believes cost of Bai Alajel with central bank and unquoted sukuk approximates its fair value.

An analysis of changes in loss allowance for Debt instruments carried at FVOCI and amortized cost, is as follows:

31st December 2020 **SAR in '000'**	**12 month ECL**	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Loss allowance as at 1 January 2020	**14,359**	**-**	**-**	**14,359**
Transfers to 12 month ECL	-	-	-	-
Transfers to Life time ECL not credit impaired	-	-	-	-
Transfers to Life time ECL credit impaired	-	-	-	-
Net charge for the year	**4,076**	**-**	**-**	**4,076**
Write-offs	-	-	-	-
Loss allowance as at 31 December 2020	**18,435**	**-**	**-**	**18,435**

31st December 2019 SAR in '000'	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Loss allowance as at 1 January 2019	10,509	-	-	10,509
Transfers to 12 month ECL	-	-	-	-
Transfers to Life time ECL not credit impaired	-	-	-	-
Transfers to Life time ECL credit impaired	-	-	-	-
Net charge for the year	3,850	-	-	3,850
Write-offs	-	-	-	-
Loss allowance as at 31 December 2019	14,359	-	-	14,359

8. FINANCING, NET

a) Held at amortized cost

2020
SAR' 000

	Commercial	**Retail**	**Total**
Performing	**35,812,045**	**35,821,656**	**71,633,701**
Non-performing	**564,361**	**280,831**	**845,192**
Gross financing	**36,376,406**	**36,102,487**	**72,478,893**
Allowance for expected credit losses	**(1,925,690)**	**(438,223)**	**(2,363,913)**
Financing, net	**34,450,716**	**35,664,264**	**70,114,980**

2019
SAR' 000

	Commercial	Retail	Total
Performing	32,229,091	28,168,320	60,397,411
Non-performing	452,224	283,689	735,913
Gross financing	32,681,315	28,452,009	61,133,324
Allowance for expected credit losses	(1,418,939)	(423,848)	(1,842,787)
Financing, net	31,262,376	28,028,161	59,290,537

The following tables further explains changes in gross carrying amount for financing prtfolio to help explain their significance to the changes in the loss allowance for the same portfolio:

Commercial **31st December 2020** **SAR in '000'**	**12 month ECL**	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Gross carrying amount as at 1 January 2020	**23,738,244**	**8,490,847**	**452,224**	**32,681,315**
Transfers to 12 month ECL	**390,387**	**(390,387)**	**-**	**-**
Transfers to Life time ECL not credit impaired	**(1,541,949)**	**1,541,949**	**-**	**-**
Transfers to Life time ECL credit impaired	**(5,486)**	**(68,318)**	**73,804**	**-**
Net change for the year	**4,311,501**	**(654,743)**	**81,670**	**3,738,428**
Write-offs	**-**	**-**	**(43,337)**	**(43,337)**
Gross carrying amount as at 31 December 2020	**26,892,697**	**8,919,348**	**564,361**	**36,376,406**

Retail **31st December 2020** **SAR in '000'**	**12 month ECL**	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Gross carrying amount as at 1 January 2020	**28,003,979**	**164,341**	**283,689**	**28,452,009**
Transfers to 12 month ECL	**84,188**	**(59,866)**	**(24,322)**	**-**
Transfers to Life time ECL not credit impaired	**(92,077)**	**95,884**	**(3,807)**	**-**
Transfers to Life time ECL credit impaired	**(102,029)**	**(43,624)**	**145,653**	**-**
Net change for the year	**7,787,412**	**(16,552)**	**(55,370)**	**7,715,490**
Write-offs	**-**	**-**	**(65,012)**	**(65,012)**
Gross carrying amount as at 31 December 2020	**35,681,473**	**140,183**	**280,831**	**36,102,487**

Total **31st December 2020** **SAR in '000'**	**12 month ECL**	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Gross carrying amount as at 1 January 2020	**51,742,223**	**8,655,188**	**735,913**	**61,133,324**
Transfers to 12 month ECL	**474,575**	**(450,253)**	**(24,322)**	**-**
Transfers to Life time ECL not credit impaired	**(1,634,026)**	**1,637,833**	**(3,807)**	**-**
Transfers to Life time ECL credit impaired	**(107,515)**	**(111,942)**	**219,457**	**-**
Net change for the year	**12,098,913**	**(671,295)**	**26,300**	**11,453,918**
Write-offs	**-**	**-**	**(108,349)**	**(108,349)**
Gross carrying amount as at 31 December 2020	**62,574,170**	**9,059,531**	**845,192**	**72,478,893**

An analysis of changes in loss allowance for Financing is, as follows:

Commercial 31st December 2020 SAR in '000'	**12 month ECL**	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Loss allowance as at 1 January 2020	**91,250**	**872,864**	**454,825**	**1,418,939**
Transfers to 12 month ECL	**5,901**	**(5,901)**	**-**	**-**
Transfers to Life time ECL not credit impaired	**(72,541)**	**72,541**	**-**	**-**
Transfers to Life time ECL credit impaired	**(4,740)**	**(66,026)**	**70,766**	**-**
Net charge for the year	**193,148**	**272,009**	**84,931**	**550,088**
Write-offs	**-**	**-**	**(43,337)**	**(43,337)**
Loss allowance as at 31 December 2020	**213,018**	**1,145,487**	**567,185**	**1,925,690**

Commercial 31st December 2019 SAR in '000'	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Loss allowance as at 1 January 2019	246,113	484,648	550,215	1,280,976
Transfers to 12 month ECL	5,767	(5,767)	-	-
Transfers to Life time ECL not credit impaired	(33,050)	33,050	-	-
Transfers to Life time ECL credit impaired	(61,611)	(117,738)	179,349	-
Net (reversal)/ charge for the year	(65,969)	478,671	11,209	423,911
Write-offs	-	-	(285,948)	(285,948)
Loss allowance as at 31 December 2019	91,250	872,864	454,825	1,418,939

Retail 31st December 2020 SAR in '000'	**12 month ECL**	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Loss allowance as at 1 January 2020	**138,229**	**59,130**	**226,489**	**423,848**
Transfers to 12 month ECL	**1,003**	**(735)**	**(268)**	**-**
Transfers to Life time ECL not credit impaired	**(28,044)**	**28,952**	**(908)**	**-**
Transfers to Life time ECL credit impaired	**(78,798)**	**(38,801)**	**117,599**	**-**
Net charge/ (reversal) for the year	**127,681**	**(4,726)**	**(43,568)**	**79,387**
Write-offs	**-**	**-**	**(65,012)**	**(65,012)**
Loss allowance as at 31 December 2020	**160,071**	**43,820**	**234,332**	**438,223**

Retail 31st December 2019 SAR in '000'	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Loss allowance as at 1 January 2019	123,430	59,554	204,207	387,191
Transfers to 12 month ECL	1,013	(776)	(237)	-
Transfers to Life time ECL not credit impaired	(32,181)	33,592	(1,411)	-
Transfers to Life time ECL credit impaired	(82,755)	(33,166)	115,921	-
Net charge/ (reversal) for the year	128,722	(74)	(44,137)	84,511
Write-offs	-	-	(47,854)	(47,854)
Loss allowance as at 31 December 2019	138,229	59,130	226,489	423,848

Total 31st December 2020 SAR in '000'	**12 month ECL**	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Loss allowance as at 1 January 2020	**229,479**	**931,994**	**681,314**	**1,842,787**
Transfers to 12 month ECL	**6,904**	**(6,636)**	**(268)**	**-**
Transfers to Life time ECL not credit impaired	**(100,585)**	**101,493**	**(908)**	**-**
Transfers to Life time ECL credit impaired	**(83,538)**	**(104,827)**	**188,365**	**-**
Net charge for the year	**320,829**	**267,283**	**41,363**	**629,475**
Write-offs	**-**	**-**	**(108,349)**	**(108,349)**
Loss allowance as at 31 December 2020	**373,089**	**1,189,307**	**801,517**	**2,363,913**

Total 31st December 2019 SAR in '000'	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Loss allowance as at 1 January 2019	369,543	544,202	754,422	1,668,167
Transfers to 12 month ECL	6,780	(6,543)	(237)	-
Transfers to Life time ECL not credit impaired	(65,231)	66,642	(1,411)	-
Transfers to Life time ECL credit impaired	(144,366)	(150,904)	295,270	-
Net charge/ (reversal) for the year	62,753	478,597	(32,928)	508,422
Write-offs	-	-	(333,802)	(333,802)
Loss allowance as at 31 December 2019	229,479	931,994	681,314	1,842,787

The contractual amount outstanding on financial assets that were written off during the year ended December 31, 2020 and that are still subject to enforcement activity is SAR 108 million (2019: SAR 334 million).

b) Financing include finance lease receivables, which are as follows:

	2020 SAR'000		2019 SAR'000	
	Retail	**Commercial**	Retail	Commercial
Gross receivables from ijarah financing :				
Less than 1 year	**83,833**	**-**	580,044	-
1 to 5 years	**1,230,800**	**-**	776,363	464,647
Over 5 years	**154,062**	**440,525**	163,146	-
	1,468,695	**440,525**	1,519,553	464,647
Unearned finance income on ijarah financing	**(280,278)**	**(387)**	(330,157)	422
Net receivables from ijarah financing	**1,188,417**	**440,138**	1,189,396	465,069

	2020 SAR'000		2019 SAR'000	
	Retail	**Commercial**	Retail	Commercial
Net receivables from ijarah financing:				
Less than 1 year	**79,477**	**-**	465,984	-
1 to 5 years	**1,005,561**	**-**	609,631	465,069
Over 5 years	**103,379**	**440,138**	113,781	-
	1,188,417	**440,138**	1,189,396	465,069

9. PROPERTY, EQUIPMENT AND RIGHT OF USE ASSETS, NET

SAR' 000	Land and building	Leasehold improvements	Equipment, furniture and motor vehicles	Computer hardware	Right of Use (ROU) Asset	Total 2020	Total 2019
Cost:							
As at the beginning of the year	**850,147**	**734,385**	**463,066**	**487,749**	**685,438**	**3,220,785**	2,261,147
Additions during the year	**124,935**	**31,055**	**25,060**	**77,854**	**31,290**	**290,194**	1,000,069
Disposals	**-**	**-**	**-**	**(1,149)**	**-**	**(1,149)**	(40,431)
As at December 31	**975,082**	**765,440**	**488,126**	**564,454**	**716,728**	**3,509,830**	3,220,785
Accumulated depreciation:							
At the beginning of the year	**27,449**	**479,632**	**339,954**	**393,012**	**114,409**	**1,354,456**	1,114,299
Charge for the year	**16,031**	**27,237**	**49,632**	**50,462**	**117,063**	**260,425**	248,924
Disposals	**-**	**-**	**-**	**(1,143)**	**-**	**(1,143)**	(8,767)
As at December 31	**43,480**	**506,869**	**389,586**	**442,331**	**231,472**	**1,613,738**	1,354,456
Net book value:							
As at December 31, 2020	**931,602**	**258,571**	**98,540**	**122,123**	**485,256**	**1,896,092**	
As at December 31, 2019	822,698	254,753	123,112	94,737	571,029		1,866,329

Leasehold improvements include work in progress as at December 31, 2020 amounting to SAR 39.7 million (2019: SAR 21.3 million).

Movement in right-of-use-assets (ROU):

SAR' 000	Land & Building	Equipment, furniture and motor vehicles	Total
Balance at beginning of the year	**564,242**	**6,787**	**571,029**
Add: Additions	**31,290**	**-**	**31,290**
Depreciation	**(115,366)**	**(1,697)**	**(117,063)**
Balance at the end of the year	**480,166**	**5,090**	**485,256**

10. OTHER ASSETS

	2020	2019
	SAR' 000	SAR' 000
Prepaid expenses and advances to suppliers	**95,057**	87,735
Management fee receivable	**123,701**	120,217
Assets in transit subject to financing	**185,930**	593,814
Others	**530,064**	1,099,318
Total	**934,752**	1,901,084

11. DUE TO BANKS, CENTRAL BANK AND OTHER FINANCIAL INSTITUTIONS

	2020	2019
	SAR' 000	SAR’ 000
Demand	**81,046**	212,045
Direct investment	**5,321,884**	433,075
Total	**5,402,930**	645,120

12. CUSTOMERS’ DEPOSITS

	2020	2019
	SAR' 000	SAR' 000
Demand	**40,185,062**	33,669,863
Direct investment	**9,522,087**	12,456,218
Albilad account (Mudarabah)	**19,800,317**	19,315,147
Others	**2,045,423**	1,664,315
Total	**71,552,889**	67,105,543

The above include foreign currency deposits as follows:

	2020	2019
	SAR' 000	SAR' 000
Demand	**813,164**	494,939
Direct investment	**2,985,160**	1,722,333
Albilad account (Mudarabah)	**123,163**	81,900
Others	**72,881**	48,120
Total	**3,994,368**	2,347,292

13. SUKUK

On August 30, 2016, the Bank issued 2,000 Sukuk Certificates (Sukuk) of SAR 1 million each, payable quarterly in arrears on February 28, May 30, August 30 and November 30 each year until August 30, 2026, on which Sukuk will be redeemed. The Bank has a call option which can be exercised on or after August 30, 2021, upon meeting certain conditions and as per the terms mentioned in the related offering circular. The Sukuk may also be called upon occurrence of certain other conditions as per the terms specified in the offering circular. The Bank has not defaulted on any of payments (profit / principal) due during the year. The expected profit distribution on the sukuk is the base rate for three months in addition to the profit margin of 2%.

14. OTHER LIABILITIES

	2020	2019
	SAR' 000	SAR' 000
Accounts payable	**2,168,203**	3,544,777
Accrued expenses	**578,559**	491,176
Lease liability	**449,566**	532,465
Loss allowance on financing commitment and financial guaranteee contracts	**131,438**	88,405
Others	**2,724,928**	2,162,255
Total	**6,052,694**	6,819,078

An analysis of changes in loss allowance for financing commitment and financial guaranteee contracts is, as follows:

31st December 2020 SAR in '000'	**12 month ECL**	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Loss allowance as at 1 January 2020	**11,407**	**9,844**	**67,154**	**88,405**
Transfers to 12 month ECL	**3,230**	**(3,230)**	**-**	**-**
Transfers to Life time ECL not credit impaired	**(1,560)**	**1,560**	**-**	**-**
Transfers to Life time ECL credit impaired	**(24,222)**	**-**	**24,222**	**-**
Net charge / (reversal) for the year	**44,401**	**1,510**	**(2,878)**	**43,033**
Write-offs	**-**	**-**	**-**	**-**
Loss allowance as at 31 December 2020	**33,256**	**9,684**	**88,498**	**131,438**

31st December 2019 SAR in '000'	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Loss allowance as at 1 January 2019	13,445	5,225	52,455	71,125
Transfers to 12 month ECL	84	(84)	-	-
Transfers to Life time ECL not credit impaired	(5,189)	5,189	-	-
Transfers to Life time ECL credit impaired	-	(14,699)	14,699	-
Net charge for the year	3,067	14,213	-	17,280
Write-offs	-	-	-	-
Loss allowance as at 31 December 2019	11,407	9,844	67,154	88,405

15. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank consists of 750 million shares of SAR 10 each (31 December 2019: 750 million shares of SAR 10 each).

The Board of Directors recommended in its meeting held on December 17, 2018 to the Extra-ordinary General Assembly an issuance of bonus shares of one share for every four shares held, thus increasing the Bank's capital from SAR 6,000 million to SAR 7,500 million, which has been approved in the Extraordinary General Assembly meeting held on April 9, 2019. The increase has been done through capitalization of SAR 1,500 million from the statutory reserve and the retained earnings. The number of shares outstanding after the bonus issuance has increased from 600 million shares to 750 million shares.

The Bank intends to purchase 5 million shares of its own shares, based on the Board of Directors' resolution dated April 16, 2020 to be allocated within the employee share plan, and that has been approved in the Extra Ordinary General Assembly meeting held on May 12, 2020 corresponding to Ramadan 19, 1441.

16. STATUTORY RESERVE

In accordance with Article 13 of the Banking Control Law, a minimum of 25% of the annual net income is required to be transferred to the statutory reserve until this reserve equals the paid-up capital of the Bank. Accordingly, SAR 337 million (2019: SAR 311 million) has been transferred to the statutory reserve. The statutory reserve is not available for distribution to shareholders.

17. DIVIDENDS

On July 18, 2019, the Board of Directors resolved on the distribution of cash dividend of SAR 300 million (SAR 0.4 per share). This was paid on August 8, 2019.

The Board of Directors' recommended to the General Assembly to distribute cash dividends of SAR 375 million to shareholders for the second half of 2019 in the meeting held on February 10, 2020 corresponding to Jumada Al-Thani 16, 1441. The dividends distribution has been approved in the Ordinary General Assembly meeting that has been held in April 26, 2020 corresponding to Ramadan 3, 1441, and dividends have been distributed to the registered shareholder's starting from May 4, 2020 corresponding to Ramadan 11, 1441.

18. OTHER RESERVES

2020	**FVOCI (Sukuk) SAR' 000**	**FVOCI (Equity) SAR' 000**	**Defined Benefit Obligation (EOSB) SAR' 000**	**Total SAR' 000**
Balance at beginning of the year	**553,890**	**10,904**	**3,486**	**568,280**
Net movement during the year	**345,579**	**(26,221)**	**(1,069)**	**318,289**
Balance at end of the year	**899,469**	**(15,317)**	**2,417**	**886,569**

2019	FVOCI (Sukuk) SAR' 000	FVOCI (Equity) SAR' 000	Defined Benefit Obligation (EOSB) SAR' 000	Total SAR' 000
Balance at beginning of the year	(47,050)	(22,782)	-	(69,832)
Net movement during the year	600,940	33,686	3,486	638,112
Balance at end of the year	553,890	10,904	3,486	568,280

19. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

As at December 31, 2020 and 2019, there were legal proceedings outstanding against the Bank. Provisions have been made for some of these legal cases based on the assessment of the Bank's legal advisers.

b) Capital commitments

As at December 31, 2020, the Bank had capital commitments of SAR 111 million (2019: SAR 63 million) relating to leasehold improvements and equipment purchases.

c) Credit related commitments and contingencies

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

Guarantee and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as financing. 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.

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 unused portions of authorization to extend credit, principally in the form of financing, guarantees or letters of credit. With respect to credit risk relating to commitments to extend credit, the Group is potentially exposed to a loss in an amount which is equal to the total unused commitments. The amount of any related loss, which cannot be reasonably estimated, is expected to be considerably less than the total unused commitments, since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire or terminate without being funded.

(i) Contractual maturity structure of the Group's commitments and contingencies:

2020 (SAR' 000)	**Less than 3 months**	**From 3 months to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
Letters of credit	**636,946**	**705,505**	**1,127**	**-**	**1,343,578**
Letters of guarantee*	**814,184**	**2,440,559**	**1,921,996**	**426,434**	**5,603,173**
Acceptances	**390,903**	**25,945**	**-**	**-**	**416,848**
Irrevocable commitments to extend credit	**-**	**-**	**-**	**2,192,171**	**2,192,171**
Total	**1,842,033**	**3,172,009**	**1,923,123**	**2,618,605**	**9,555,770**

2019 (SAR' 000)	Less than 3months	From 3 months to 12 months	From 1 to 5 years	More than 5 years	Total
Letters of credit	567,280	608,662	23,999	-	1,199,941
Letters of guarantee	713,390	2,159,162	2,144,167	479,957	5,496,676
Acceptances	319,594	34,085	-	-	353,679
Irrevocable commitments to extend credit	120,471	-	-	1,029,495	1,149,966
Total	1,720,735	2,801,909	2,168,166	1,509,452	8,200,262

The outstanding unused portion of commitments as at December 31, 2020 which can be revoked unilaterally at any time by the Group amounts to SAR 10.9 billion (2019: SAR 11.4 billion).

* This is as per contractual period of the guarantee and in event of default may be payable on demand and therefore current in nature.

(ii) Commitments and contingencies by counterparty:

	2020 SAR' 000	2019 SAR' 000
Corporate	**7,890,282**	6,656,231
Financial institutions	**1,585,195**	1,462,649
Others	**80,293**	81,382
Total	**9,555,770**	8,200,262

20. INCOME FROM INVESTING AND FINANCING ASSETS

	2020 SAR' 000	2019 SAR' 000
Income from investments and due from banks and other financial institutions		
Income from bai alajel with central bank	**109,930**	50,842
Income from murabaha with banks and other financial institutions	**70,951**	160,257
Income from sukuk	**340,684**	242,403
Income from financing	**3,105,003**	3,008,490
Total	**3,626,568**	3,461,992

21. RETURN ON DEPOSITS AND FINANCIAL LIABILITES

Return on:	2020 SAR' 000	2019 SAR' 000
Due to banks, central bank and other financial institutions	**11,005**	19,502
Deposits	**252,525**	523,336
Sukuk	**70,406**	95,391
Total	**333,936**	638,229

22. FEES AND COMMISSION INCOME, NET

	2020 SAR' 000	2019 SAR' 000
Fees and commission income		
Remittance	**370,577**	454,656
ATM and point of sale	**231,021**	274,583
Letters of credit and guarantee	**51,647**	48,337
Management fee (mutual fund and others)	**68,801**	84,181
Brokerage income	**130,905**	53,747
Others	**96,914**	57,491
Total fees and commission income	**949,865**	972,995
Fees and commission expenses		
ATM and point of sale	**172,193**	182,797
Brokerage expenses	**48,694**	21,066
Remittance	**6,022**	10,733
Others	**95,561**	81,767
Total fees and commission expenses	**322,470**	296,363
Fees and commission income, net	**627,395**	676,632

23. SALARIES AND EMPLOYEE RELATED EXPENSES

The following table summarizes compensation practices and includes total of fixed and variable compensation paid to employees during the year ended December 31, 2020 and 2019, and the form of such payments:

2020	**Number of employees**	**Fixed compensation SAR 000**	**Variable compensation paid Cash**	**Shares**	**Total**
			SAR' 000		
Senior executives	**9**	**17,120**	**20,009**	**7,198**	**27,207**
Employees engaged in risk taking activities	**284**	**95,824**	**29,526**	**1,182**	**30,708**
Employees engaged in control functions	**308**	**86,511**	**18,242**	**1,376**	**19,618**
Other employees	**2,946**	**435,607**	**70,740**	**3,290**	**74,030**
Outsourced employees	**744**	**123,469**	**-**	**-**	**-**
Total	**4,291**	**758,531**	**138,517**	**13,046**	**151,563**
Variable compensation accrued, and other employee related benefits*		**406,225**			
Total salaries and employee related expenses		**1,164,756**			

2019	Number of employees	Fixed compensation SAR 000	Variable compensation paid Cash	Shares	Total
			SAR' 000		
Senior executives	9	16,213	11,658	3,832	15,490
Employees engaged in risk taking activities	254	91,103	27,319	1,490	28,809
Employees engaged in control functions	303	85,832	14,617	1,200	15,817
Other employees	3,053	457,806	61,263	3,253	64,516
Outsourced employees	761	107,104	-	-	-
Total	4,380	758,058	114,857	9,775	124,632
Variable compensation accrued, and other employee related benefits*		388,727			
Total salaries and employee related expenses		1,146,785			

* Other employee related benefits include, insurance, pension, relocation expenses, recruitment expenses, training and development and other employee benefits.

Employees Compensation and Benefits

1. Quantitative Disclosure:

This disclosure has to be bifurcated between the following categories, whereby the meaning of each category is mentioned below:

a) **Senior executives:**

Members of Managment Committee whom appointment is subject to approval of central bank, such as: CEO, CFO (EVP Finance), COO (EVP Operations Management), CRO (EVP Risk Management), EVP Retail Banking, EVP Human Resource, etc.

b) **Employees engaged in risk taking activities:**

This comprises of management staff within various business lines i.e. corporate, retail, treasury, trade services, private banking etc. who are responsible for executing and implementing the business strategy of the bank.

c) **Employees engaged in control functions:**

This comprises of employees working in divisions that are not involved in risk taking activities but engaged in review functions i.e. risk management, compliance, internal audit, treasury operations, finance and accounting, etc.

d) **Other employees:**

All regular employees other than those mentioned in (a) to (c) above.

e) **Outsourced employees:**

This includes staff employed by various agencies who supply services to the Bank on a full time basis in non-critical roles. None of these roles require risk undertaking or control.

2. Qualitative Disclosure:

The Bank has developed a Compensation Policy based on the ‘Rules on Compensation Practices’ issued by central bank as well as the guidelines provided by the Financial Stability Board and the Basel Committee on Banking Supervision in this respect.

The Compensation Policy has been approved by the Board of Directors (BOD). The BOD have also established a Nominations and Remuneration Committee to oversee the implementation of the Policy.

The mandate of the Committee is to oversee the compensation system design and operation, prepare and periodically review the Compensation Policy and evaluate its effectiveness in line with the industry practice.

Policy Objectives

The policy sets guidelines for determination of both fixed and variable compensation to be paid to the employees of the Group. The scope of the Policy includes all compensation elements, approval and reporting process, stock options, bonus and its deferral, etc.

The objective of the Policy is to ensure that the compensation is governed by the financial performance evaluation and is linked to the various risks associated, at an overall level. Key staff members of the Bank are eligible to variable compensation which is derived from Risk Adjusted Net Income of the Bank which accounts for significant existing and potential risks in order to protect the Bank's Capital Adequacy and to mitigate the risk of potential future losses.

Compensation Structure

The compensation structure of the Bank is based on appropriate industry benchmarking and includes both fixed and variable components. The variable component is designed to ensure key employee retention and is based on three year vesting period.

- **Fix Components:**

Provide a competitive salaries or wage according to annual market alignment, including (basic, housing, transportation and fixed allowances) which are written in the employee's contract.

- **Variable Components:**

Taking into account the risk associated with the Bank's performance & individual performance appraisal, all these factors are assessed on periodical basis and the results are shared with the stakeholders based on which the incentive is announced at the close of each accounting period. Including (LTIP and deferral bonus & STIP as Incentives scheme and Annual Bonus).

Performance Management System

The performance of all employees is measured by way of a balance score card methodology taking into consideration, financial, customer, process and people factors with appropriate weightage to each factor based on the respective assignments.

The Bank has following share-based payment plans outstanding at the end of the year. Significant features of these plans are as follows:

	2020	2019
Grant date	**1 Mar 2020**	3 Mar 2019
Maturity Date	**25% 1 Jan 2021** **25% 1 Jan 2022** **50% 1 Jan 2023**	25% 1 Jan 2020 25% 1 Jan 2021 50% 1 Jan 2022
Number of shares offered on the grant date	**576,525**	482,698
Share price on the grant date (SAR)	**25.84**	24.63
Value of shares offered on grant date (SAR' 000)	**14,897**	11,889
Vesting period	**3 years**	3 years
Vesting condition	**On duty staff**	On duty staff
Method of settlement	**Equity**	Equity

	2020	2019
The movement in the number of shares, during the year, under employees' share plan is as follows:		
Beginning of the year	**1,306,837**	1,139,410
Granted during the year	**576,525**	603,401
Forfeited	**(55,246)**	(138,337)
Exercised	**(622,823)**	(466,024)
After capital increase conducted in 2019	**-**	168,387
End of the year	**1,205,293**	1,306,837

The shares are granted only under service condition with no market condition associated with them.

24. ZAKAT SETTLEMENT

As a major event, in the year 2018, the Bank reached a settlement agreement with the General Authority for Zakat & Income Tax (GAZT), to settle the zakat liability amounting to SAR 392.8 million for previous years and until the end of the financial year 2017. The settlement agreement requires the Bank to settle the 20% of the agreed zakat liability in the year 2018 and the remaining to be settled over the period of five years, accordingly the Bank have adjusted zakat for the previous years and until the end of financial year 2017, through its retained earnings. As a result of the settlement agreement the Bank have agreed to withdraw all of the previous appeals which were filed with the competent authority with respect to zakat.

25. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for the years ended December 31, 2020 and 2019 is calculated by dividing the net income for the year attributable to the equity holders by the weighted average number of outstanding shares 2020: 746 million shares (2019: 746 million shares) during the year adjusted for treasury shares.

26. CASH AND CASH EQUIVALENTS

	Note	**2020** **SAR' 000**	2019 SAR' 000
Cash and balances with central bank (excluding statutory deposit)	5	**1,741,229**	4,362,480
Due from banks and other financial institutions (maturing within ninety days from acquisition)		**865,471**	1,395,392
Held at amortized cost (maturing within ninety days from acquisition)		**300,029**	-
Total		**2,906,729**	5,757,872

27. EMPLOYEE BENEFIT OBLIGATION

a. General description

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

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

	2020 **SAR' 000**	2019 SAR' 000
Defined benefit obligation at the beginning of the year	**246,735**	223,590
Current service cost	**40,069**	36,707
Finance cost	**10,755**	12,565
Benefits paid	**(16,701)**	(22,641)
Unrecognized actuarial loss / (gain)	**1,069**	(3,486)
Defined benefit obligation at the end of the year	**281,927**	246,735

c. Charge /(reversal) for the year

	2020 SAR' 000	2019 SAR' 000
Current service cost	**40,069**	37,611
Past service cost	**-**	(904)
Finance cost	**10,755**	12,565
	50,824	49,272

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

	2020 SAR' 000	2019 SAR' 000
Discount rate	**2.80%**	4.60%
Expected rate of salary change	**3.00%**	4.50%
Normal retirement age		
• Male	**60 years**	60 years
• Female	**55 years**	55 years

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

e. Sensitivity of actuarial assumptions

The table below illustrates the sensitivity of the Defined Benefit Obligation valuation as at December 31, 2020 to the discount rate 2.80% (2019: 4.60%), salary escalation rate 3.00% (2019: 4.50%), withdrawal assumptions.

2020	**SAR' 000 — Impact on defined benefit obligation – Increase / (Decrease)**		
Base Scenario	**Change in assumption**	**Increase in assumption**	**Decrease in assumption**
Discount rate	**1%**	**(29,538)**	**32,996**
Expected rate of salary change	**1%**	**32,570**	**(29,744)**
Withdrawal assumptions	**20%**	**(6,717)**	**5,052**

2019	SAR' 000 — Impact on defined benefit obligation – Increase / (Decrease)		
Base Scenario	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1%	(27,333)	32,655
Expected rate of salary change	1%	32,350	(27,599)
Withdrawal assumptions	20%	(3,850)	3,786

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

28. SEGMENTAL INFORMATION

Operating segments, based on customer groups are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Assets and Liabilities Committee (ALCO) in order to allocate resources to the segments and to assess its performance. The Group's main business is conducted in the Kingdom of Saudi Arabia.

There has been no change to the basis of segmentation or the measurements basis for the segment profit or loss since December 31, 2019.

For management purposes, the Group is divided into the following four operating segments:

Retail banking

Services and products to individuals, including deposits, financing, remittances and currency exchange.

Corporate banking

Services and products to corporate customers including deposits, financing and trade services.

Treasury

Money market and treasury services.

Investment banking and brokerage

Investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities.

Transactions between the above operating segments are under the terms and conditions of the approved Fund Transfer Pricing (FTP) system. The support segments and Head Office expenses are allocated to other operating segments, based on an approved criteria.

a) The Group total assets and liabilities, together with its total operating income and expenses, and net income, for the years ended December 31, 2020 and 2019 for each segment are as follows:

2020 **SAR' 000**	**Retail banking**	**Corporate banking**	**Treasury**	**Investment banking and brokerage**	**Total**
Total assets	**43,684,277**	**33,586,851**	**17,597,933**	**874,731**	**95,743,792**
Total liabilities	**55,560,854**	**14,912,087**	**14,336,957**	**203,491**	**85,013,389**
Net income from investing and financing assets	**1,960,032**	**942,015**	**384,974**	**5,611**	**3,292,632**
Fee, commission and other income, net	**654,900**	**62,500**	**76,270**	**175,745**	**969,415**
Total operating income	**2,614,932**	**1,004,515**	**461,244**	**181,356**	**4,262,047**
Impairment charge for expected credit losses, net	**98,492**	**590,988**	**3,431**	**1,600**	**694,511**
Depreciation and amortization	**198,855**	**52,242**	**6,158**	**3,170**	**260,425**
Total operating expenses	**1,697,365**	**885,433**	**80,757**	**96,802**	**2,760,357**
Net income for the year before zakat	**917,567**	**119,082**	**380,487**	**84,554**	**1,501,690**

2019 SAR' 000	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Total
Total assets	35,937,100	30,644,541	18,623,502	798,289	86,003,432
Total liabilities	52,244,834	12,954,957	11,175,488	202,230	76,577,509
Net income from investing and financing assets	1,550,670	995,554	263,710	13,829	2,823,763
Fee, commission and other income, net	731,147	61,478	162,882	166,077	1,121,584
Total operating income	2,281,817	1,057,032	426,592	179,906	3,945,347
Impairment charge for expected credit losses, net	167,017	372,360	3,020	696	543,093
Depreciation and amortization	190,221	48,966	6,503	3,234	248,924
Total operating expenses	1,706,099	683,932	77,302	91,291	2,558,624
Net income for the year before zakat	575,718	373,100	349,290	88,615	1,386,723

b) Credit exposure by operating segments is as follows:

2020 **SAR' 000**	**Retail**	**Corporate**	**Treasury**	**Total**
Total assets	**35,664,264**	**34,450,716**	**15,779,945**	**85,894,925**
Commitments and contingencies	**-**	**4,847,022**	**-**	**4,847,022**

2019 SAR' 000	Retail	Corporate	Treasury	Total
Total assets	28,028,161	31,262,376	13,705,912	72,996,449
Commitments and contingencies	-	3,525,780	-	3,525,780

Group credit exposure is comprised of due from bank and other financial institutions, investments and financing. The credit equivalent value of commitments and contingencies are included in credit exposure as calculated in accordance with central bank regulations.

29. FINANCIAL RISK MANAGEMENT

CREDIT RISK

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles. The Board has appointed the Risk Committee which has the responsibility to monitor the overall risk process within the Bank.

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, limits and review of the policies.

The Group manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in financing and investment activities. There is also credit risk in off-balance sheet financial instruments, such as letters of credit, letter of guarantees and financing commitments.

The Group assesses the probability of default of counterparties using internal rating tools. Also the Group uses the external ratings of the major rating agency, where available.

The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties. The Group's risk management policies are designed to identify, to set appropriate risk limits, and to monitor the risks and adherence to limits. Actual exposures against limits are monitored daily. In addition to monitoring credit limits, the Group manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

The Group seeks to manage its credit risk exposure through diversification and managing undue concentration of risks with individuals or groups of customers in specific locations or business. It also takes security when appropriate. The Group also seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant facilities.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

The Group regularly reviews its risk management policies and systems to reflect changes in market products and emerging best practice.

The debt securities included in the investment portfolio are mainly sovereign risk. Analysis of investments by counter-party is provided in note 7. For details of the composition of financing refer to note 8. Information on credit risk relating to commitments and contingencies in note 19. The information on Bank's maximum credit exposure by business segment is given in note 28.

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

a) Geographical concentration

The geographical distribution of assets, liabilities, commitments and contingencies and credit risk exposure as of December 31:

2020 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 central banks	**5,745,353**	**-**	**-**	**-**	**-**	**-**	**5,745,353**
Cash in hand	1,582,322	-	-	-	-	-	**1,582,322**
Balances with central bank	4,163,031	-	-	-	-	-	**4,163,031**
Due from Banks and other financial institutions	**1,022,877**	**68,166**	**874,049**	**35,903**	**78,947**	**99,488**	**2,179,430**
Demand	-	68,166	292,942	35,903	78,947	99,488	**575,446**
Commodity murabaha	1,022,877	-	581,107	-	-	-	**1,603,984**
Investments, net	**14,221,245**	**621,228**	**-**	**30,712**	**-**	**-**	**14,873,185**
FVOCI	8,032,501	74,705	-	-	-	-	**8,107,206**
FVTPL	684,158	91,802	-	30,712	-	-	**806,672**
Amortized cost	5,504,586	454,721	-	-	-	-	**5,959,307**
Financing, net	**70,114,980**	**-**	**-**	**-**	**-**	**-**	**70,114,980**
Retail	35,664,264	-	-	-	-	-	**35,664,264**
Commercial	34,450,716	-	-	-	-	-	**34,450,716**
Other assets	**725,383**	**-**	**-**	**-**	**-**	**-**	**725,383**
Total	**91,829,838**	**689,394**	**874,049**	**66,615**	**78,947**	**99,488**	**93,638,331**
Liabilities							
Due to banks, central bank and other financial institutions	**4,901,037**	**334,195**	**-**	**-**	**122,669**	**45,029**	**5,402,930**
Demand	-	73,490	-	-	758	6,798	**81,046**
Direct investment	4,901,037	260,705	-	-	121,911	38,231	**5,321,884**
Customer deposits	**71,552,889**	**-**	**-**	**-**	**-**	**-**	**71,552,889**
Demand	40,185,062	-	-	-	-	-	**40,185,062**
Direct investment	9,522,087	-	-	-	-	-	**9,522,087**
Albilad account (Mudarabah)	19,800,317	-	-	-	-	-	**19,800,317**
Other	2,045,423	-	-	-	-	-	**2,045,423**
Sukuk	**2,004,876**	**-**	**-**	**-**	**-**	**-**	**2,004,876**
Other liabilities	**5,241,305**	**-**	**-**	**-**	**-**	**-**	**5,241,305**
Total	**83,700,107**	**334,195**	**-**	**-**	**122,669**	**45,029**	**84,202,000**
Commitments and contingencies							
Letters of credit	1,343,578	-	-	-	-	-	**1,343,578**
Letter of guarantee	5,603,173	-	-	-	-	-	**5,603,173**
Acceptances	416,848	-	-	-	-	-	**416,848**
Irrevocable commitments to extend credit	2,192,171	-	-	-	-	-	**2,192,171**
	9,555,770	**-**	**-**	**-**	**-**	**-**	**9,555,770**
Credit risk (stated at credit equivalent amounts) on commitments and contingencies	**4,847,022**	**-**	**-**	**-**	**-**	**-**	**4,847,022**

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 central banks	7,915,852	-	-	-	-	-	7,915,852
Cash in hand	1,669,426	-	-	-	-	-	1,669,426
Balances with central abank	6,246,426	-	-	-	-	-	6,246,426
Due from Banks and other financial institutions	2,373,171	509,765	1,052,284	18	57,143	49,023	4,041,404
Demand	-	65,000	39,567	18	57,143	49,023	210,751
Commodity murabaha	2,373,171	444,765	1,012,717	-	-	-	3,830,653
Investments, net	10,335,727	628,783	-	23,716	-	-	10,988,226
FVOCI	7,707,964	320,963	-	-	-	-	8,028,927
FVTPL	721,613	120,963	-	23,716	-	-	866,292
Amortized cost	1,906,150	186,857	-	-	-	-	2,093,007
Financing, net	59,290,537	-	-	-	-	-	59,290,537
Retail	28,028,161	-	-	-	-	-	28,028,161
Commercial	31,262,376	-	-	-	-	-	31,262,376
Other assets	1,719,493	-	-	-	-	-	1,719,493
Total	81,634,780	1,138,548	1,052,284	23,734	57,143	49,023	83,955,512
Liabilities							
Due to banks, central bank and other financial institutions	26,395	368,326	-	1,394	189,953	59,052	645,120
Demand	-	140,331	-	1,394	11,268	59,052	212,045
Direct investment	26,395	227,995	-	-	178,685	-	433,075
Customer deposits	67,105,543	-	-	-	-	-	67,105,543
Demand	33,669,863	-	-	-	-	-	33,669,863
Direct investment	12,456,218	-	-	-	-	-	12,456,218
Albilad account (Mudarabah)	19,315,147	-	-	-	-	-	19,315,147
Other	1,664,315	-	-	-	-	-	1,664,315
Sukuk	2,007,768	-	-	-	-	-	2,007,768
Other liabilities	6,102,620	-	-	-	-	-	6,102,620
Total	75,242,326	368,326	-	1,394	189,953	59,052	75,861,051
Commitments and contingencies							
Letters of credit	1,199,941	-	-	-	-	-	1,199,941
Letter of guarantee	5,496,676	-	-	-	-	-	5,496,676
Acceptances	353,679	-	-	-	-	-	353,679
Irrevocable commitments to extend credit	1,149,966	-	-	-	-	-	1,149,966
	8,200,262	-	-	-	-	-	8,200,262
Credit risk (stated at credit equivalent amounts) on commitments and contingencies	3,525,780	-	-	-	-	-	3,525,780

Credit equivalent amounts reflect the amounts that result from translating the Group's commitments and contingencies into the risk equivalent of financing facilities using credit conversion factors prescribed by central bank. Credit conversion factor is used to capture the potential credit risk resulting from the Group meeting its commitments.

b) The geographical distribution of the impaired financial assets and the allowance for expected credit losses are set out as below:

2020 **SAR' 000**	**Kingdom of Saudi Arabia**	**Other GCC and Middle East**	**Europe**	**North America**	**South East Asia**	**Other countries**	**Total**
Non-Performing financing	**845,192**	**-**	**-**	**-**	**-**	**-**	**845,192**
Allowance for expected credit losses	**2,363,913**	**-**	**-**	**-**	**-**	**-**	**2,363,913**
Impaired other financial assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Allowance for expected credit losses	**20,583**	**501**	**411**	**1**	**2**	**13**	**21,511**
2019 SAR' 000							
Non-Performing financing	735,913	-	-	-	-	-	735,913
Allowance for expected credit losses	1,842,787	-	-	-	-	-	1,842,787
Impaired other financial assets	-	-	-	-	-	-	-
Allowance for expected credit losses	16,010	516	-	1	5	-	16,532

Credit quality analysis

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

31 December 2020 **SAR in '000'**	**12 month ECL**	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Due from bank and other financial institutions				
Investment grade	**1,876,223**	**-**	**-**	**1,876,223**
Non-investment grade	**303,987**	**-**	**-**	**303,987**
Carrying amount	**2,180,210**	**-**	**-**	**2,180,210**

31 December 2019 SAR in '000'	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Due from bank and other financial institutions				
Investment grade	3,935,200	-	-	3,935,200
Non-investment grade	48,908	-	-	48,908
Unrated	58,713	-	-	58,713
Carrying amount	4,042,821	-	-	4,042,821

31 December 2020 SAR in'000'	**12 month ECL**	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Financing to customers at amortized cost				
Commercial	**26,892,697**	**8,919,348**	**564,361**	**36,376,406**
Grades 1-15: Low – fair risk	**25,686,690**	**3,727,384**	**-**	**29,414,074**
Grades 16-20: Watch list	**1,206,007**	**5,191,964**	**-**	**6,397,971**
Grades 21: Substandard	**-**	**-**	**69,410**	**69,410**
Grades 22: Doubtful	**-**	**-**	**86,392**	**86,392**
Grades 23: Loss	**-**	**-**	**408,559**	**408,559**
Retail				
Unrated	**35,681,473**	**140,183**	**280,831**	**36,102,487**
Carrying amount	**62,574,170**	**9,059,531**	**845,192**	**72,478,893**

31 December 2019 SAR in'000'	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Financing to customers at amortized cost				
Commercial	23,738,244	8,490,847	452,224	32,681,315
Grades 1-15: Low – fair risk	22,323,029	4,709,859	-	27,032,888
Grades 16-20: Watch list	1,415,215	3,780,988	-	5,196,203
Grades 21: Substandard	-	-	45,428	45,428
Grades 22: Doubtful	-	-	57,206	57,206
Grades 23: Loss	-	-	349,590	349,590
Retail				
Unrated	28,003,979	164,341	283,689	28,452,009
Carrying amount	51,742,223	8,655,188	735,913	61,133,324

31 December 2020 SAR in'000'	**12 month ECL**	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Debt investment securities at amortized cost				
Investment grade	**5,967,248**	**-**	**-**	**5,967,248**
Carrying amount	**5,967,248**	**-**	**-**	**5,967,248**

31 December 2019 SAR in '000'	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Debt investment securities at amortized cost				
Investment grade	2,095,448	-	-	2,095,448
Carrying amount	2,095,448	-	-	2,095,448

31 December 2020 SAR in'000'	**12 month ECL**	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Debt investment securities at FVOCI				
Investment grade	**7,457,564**	**-**	**-**	**7,457,564**
Unrated	**194,139**	**-**	**-**	**194,139**
Carrying amount	**7,651,703**	-	-	**7,651,703**

31 December 2019 SAR in '000'	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Debt investment securities at FVOCI				
Investment grade	7,366,098	-	-	7,366,098
Unrated	217,322	-	-	217,322
Carrying amount	7,583,420	-	-	7,583,420

31 December 2020 SAR in '000'	**12 month ECL**	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Commitments and contingencies				
Grades 1-15: Low – fair risk	**8,507,153**	**294,897**	**-**	**8,802,050**
Grades 16-20: Watch list	**182,031**	**342,624**	**-**	**524,655**
Grades 21: Substandard	**-**	**-**	**85,885**	**85,885**
Grades 22: Doubtful	**-**	**-**	**-**	**-**
Grades 23: Loss	**-**	**-**	**143,180**	**143,180**
Carrying amount	**8,689,184**	**637,521**	**229,065**	**9,555,770**

31 December 2019 SAR in '000'	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Commitments and contingencies				
Grades 1-15: Low – fair risk	7,168,044	300,298	-	7,468,342
Grades 16-20: Watch list	114,527	468,901	-	583,428
Grades 21: Substandard	-	-	1,800	1,800
Grades 22: Doubtful	-	-	48,315	48,315
Grades 23: Loss	-	-	98,377	98,377
Carrying amount	7,282,571	769,199	148,492	8,200,262

Amounts arising from ECL – Significant increase in credit risk

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

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- The point in time PD at the reporting date; with
- The Point in time PD estimated at the time of initial recognition of the exposure.

In addition to the above, other major quantitative consideration include days past due and rating of customer.

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

The assessment of significant increase in credit risk, is assessed taking on account of:

- Days past due;
- Change in risk of default occurring since initial recognition;
- Expected life of the financial instrument; and
- Reasonable and supportable information, that is available without undue cost or effort that may affect credit risk.

Lifetime expected credit losses are recognized against any material facility which has experienced significant increase in credit risk since initial recognition. Recognition of lifetime expected credit losses will be made if any facility is past due for more than 30 days.

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 loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

Credit risk grades

For the wholesale portfolio, the bank allocates each exposure (either through reliance on internal rating or external rating agencies) to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

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

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

Commercial exposures	Retail 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 are: gross profit margins, financial leverage ratios, debt service coverage, and compliance with covenants, quality management, and senior management changes. • Data from credit reference agencies, press articles, changes in external credit ratings • Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities • Business analysis of the borrower, including business risk, management, financial document and support, stability and behavior. • Industry analysis in which the borrower is operating, including the phase of industry growth and industry failure rate.	• Internally collected data and customer behavior – e.g. utilization of credit card facilities. • Affordability metrics. • External data from credit reference agencies including industry-standard credit.	• 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.

Generating the term structure of PD

Credit risk grades (or the four aforementioned bucket created for retail portfolio) are a primary input into the determination of the term structure of PD for exposures.

Using the realized default data for each grade or bucket, the bank employs statistical models to generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

The Bank employs following steps in order to generated term structure of the PD:

The Bank first calculates the observed default rates for its portfolios which involves monitoring customer behavior over next 12 months, then classifying default, which is then forecasted using acceptable actuarial method and thereafter adjusted for macroeconomic outlook (see below).

The Bank factors in forward looking information in its PD calibration through macroeconomic models for each portfolio. The impact of macroeconomic variables on default rates has been calculated using a multiple scenario-based modeling framework which factors upturn, downturn and baseline scenarios' forecast in to the probability of default. This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors. The forecast is used to estimate the impact on the PD over the upcoming years.

The “Point in Time” PD, and later adjusted for macroeconomic overly to make it forward looking. Transition matrix approach is used to forecast grade wise PDs over the upcoming years transition matrix. This provide the grade wise PD over the upcoming years, thus the term structure of the PD.

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 actions such as realizing security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Bank.

In assessing whether a borrower is in default. The Bank considers indicators that are:
- Qualitative- e.g. breaches of covenant;
- quantitative- e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources; and
- inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

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

Modified financial assets

The contractual terms of a financing may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing financing whose terms have been modified may be derecognized and the renegotiated financing recognized as a new financing at fair value in accordance with the accounting policy.

When the terms of the financial assets are modified that does not result into de-recognition, the Bank will recalculate the gross carrying amount of the asset by discounting the modified contractual cash flows using EIR prior to the modification. Any difference between the recalculated amount and the existing gross carrying amount will be recognized in statement of income for asset modification.

To measure the Significant Increase in Credit Risk (for financial assets not de-recognized during the course of modification), the Bank will compare the risk of default occurring at the reporting date based on modified contract terms and the default risk occurring at initial recognition based on original and unmodified contract terms. Appropriate ECL will be recorded according to the identified staging after Asset Modification i.e. 12 Month ECL for Stage 1, Lifetime ECL for Stage 2 and Default for Stage 3.

The Bank renegotiates financing to customers in financial difficulties referred to as “forbearance activities” to maximize collection opportunities and minimize the risk of default. Under the Bank's forbearance policy, financing forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of profit payments and amending the terms of financing covenants. Both retail and commercial financing are subject to the forbearance policy.

The asset will be provided appropriate treatment according to the identified staging after Asset Modification i.e. 12 Month ECL for Stage 1, Lifetime ECL for Stage 2 and Default for Stage 3. No Asset Modification to be considered if the same were not driven by Credit Distress situation of Obligor.

During the year, no material losses were recognized on modification or restructuring of any facility apart from the modification of financing related to the deferred payments program of SAMA (Note 37).

Incorporation of forward looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

For the purpose of ECL measurement with respect to the retail and commercial (including SME) portfolios, this is done through application of macroeconomic models which have been developed for the various portfolios of the banks. Through the macroeconomic models the Bank assesses the impact of the macroeconomic variables on the default rates. The forecasts of the variables is gathered from the external sources.

The Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by independent external agencies.

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

The economic scenarios used as at 31 December included the following ranges of key indicators.

Economic Indicators	**2020**	**2019**
Oil prices and GDP	**Upside 30%** **Base case 40%** **Downside 30%**	Upside 30% Base case 40% Downside 30%

The Bank has updated its forward-looking variables (key economic drivers), refer above table.

a) Scenario assumptions:

As at 31 December 2020, the scenario assumptions are updated to reflect the current situation of COVID-19. This included an assessment of the support of the Government's actions, the response of business and customers (such as repayment deferrals). These are considered in determining the length and severity of the forecast economic downturn.

b) Probability weightings

The Bank considered the probability weightings to provide the best estimate of the possible loss outcomes and has analysed inter-relationships and correlations (over both the short and long term) within the Bank's credit portfolios in determining them.

Probability weighting of each scenario is determined by management considering the risks and uncertainties surrounding the base case economic scenario. The key consideration for probability weightings in the current period is the continuing impact of COVID-19.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

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 over the past 7 to 10 years. To account for the impact of COVID-19, the Bank has used below base case near term forecast in its ECL model, which is based on updated information available as at the reporting date:

Economic Indicators	**Forecast calendar years used in 2020 ECL model**			Forecast calendar years used in 2019 ECL model		
	2021	**2022**	**2023**	2021	2022	2023
GDP (SAR in Billions)	**2,676**	**2,750**	**2,820**	3,432	3,508	3,609
Oil prices (USD per barrel)	**53.22**	**61.59**	**63.77**	67.41	67.91	68.95
Inflation (Consumer Price Index)	**99.20**	**100.75**	**102.50**	115.41	117.78	120.04

With respect to the listed, sovereign and Financial Institutions, the bank utilizes a Credit Default Swap based methodology, which incorporates the market's forward looking view in order to arrive at the ECL.

COVID-19 overlays

The prevailing economic conditions do require the Bank to continue to revise certain inputs and assumptions used for the determination of ECL. These primarily revolve around either adjusting macroeconomic factors used by the Bank in the estimation of ECL or revisions to the scenario probabilities currently being used by the Bank. As the situation continues to be fluid, the management considers certain effects cannot be fully incorporated into the ECL model calculations at this point in time. Accordingly, management's ECL assessment includes sector-based analysis depending on the impacted portfolios and macroeconomic analysis. The Bank has therefore recognised overlays of SAR 73 million as at 31 December 2020. The Bank will continue to reassess as more reliable data becomes available and accordingly determine if any adjustment in the ECL is required in subsequent reporting periods.

Sensitivity of ECL allowance

The uncertainty of the impact of COVID-19 introduces significant estimation uncertainty in relation to the measurement of the Bank's allowance for expected credit losses. The changing COVID-19 circumstances and the Government, business and consumer responses could result in significant adjustments to the allowance in future financial years.

Given current economic uncertainties and the judgment applied to factors used in determining the expected default of borrowers in future periods, expected credit losses reported by the Bank should be considered as a best estimate within a range of possible estimates.

The table below illustrates the sensitivity of ECL to key factors used in determining it as at the year end:

Assumptions sensitized	**ECL impact 2020 (SAR' 000)**
Macro-economic factors:	
Decrease in $10 oil price per barrel	147,645
Decrease in $20 oil price per barrel	295,291
Increase in Private sector GDP contraction by 5%	100,414
Increase in Private sector GDP contraction by 8%	160,662

Where modeling of a parameter is carried out on a collective basis, the financial instruments are assessed on the basis of shared risk characteristics that include:

- Product type
- Delinquency
- Employer (Government & Private segmentation)
- Income (Salary & Non salary transfer)
- Collateral type;

Measurement of ECL

For retail and commercial (including SME exposures), the key inputs into the measurement of ECL are the term structure of the following variables:

a) Probability of default (PD);
b) Loss given default (LGD); and
c) Exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated, based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. LGD is calculated on a discounted cash flow basis using the contractual profit rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current 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 Bank measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance, terminate a financing commitment, or guarantee.

For retail overdrafts and credit card facilities that include both a financing and an undrawn commitment component, the Bank measures ECL over a period of contractual maturity, as the bank considers that it has the contractual ability to demand repayment and cancel the undrawn commitment. Although these facilities do not have a fixed term or repayment structure and are managed on a collective basis, there is an annual review of the limits, where these can be cancelled.

For portfolios, such as listed exposures, Sovereign and FI exposures, in respect of which the Bank has limited historical data, credit default swap spreads are utilized to determine the Expected Credit Loss amount.

The PD, EAD and LGD models are subject to the Bank's IFRS 9 model validation policy that stipulates periodic model monitoring, periodic revalidation.

During the year, the Bank has validated and redeveloped some models where necessitates based on updated default data / macroeconomic information.

- **Economic Sector risk concentration for the financing and allowance for ECL are as follows:**

	2020				2019			
SAR, 000'	**Performing**	**Credit-impaired**	**Allowance for expected credit losses**	**Financing, net**	Performing	Credit-impaired	Allowance for expected credit losses	Financing, net
Commercial	**3,868,235**	**240,367**	**(730,831)**	**3,377,771**	4,444,231	150,721	(539,633)	4,055,319
Industrial	**6,465,488**	**78,279**	**(330,703)**	**6,213,064**	5,611,212	82,256	(211,774)	5,481,694
Building and construction	**1,820,092**	**60,530**	**(217,549)**	**1,663,073**	1,811,273	36,534	(172,268)	1,675,539
Real estate and rental	**11,564,601**	**-**	**(211,018)**	**11,353,583**	10,651,511	-	(104,591)	10,546,920
Transportation and communication	**1,825,000**	**-**	**(15,722)**	**1,809,278**	1,581,507	144	(20,051)	1,561,600
Electricity, water, gas & health services	**1,430,328**	**-**	**(11,432)**	**1,418,896**	572,582	1,402	(15,829)	558,155
Services	**1,898,124**	**26,310**	**(88,792)**	**1,835,642**	2,146,330	19,520	(105,419)	2,060,431
Agriculture and fishing	**1,279,689**	**-**	**(27,482)**	**1,252,207**	1,262,881	-	(4,341)	1,258,540
Mining & Quarrying	**2,196,346**	**-**	**(4,342)**	**2,192,004**	1,025,127	-	(1,351)	1,023,776
Retail	**35,821,656**	**280,831**	**(438,223)**	**35,664,264**	28,168,320	283,689	(423,848)	28,028,161
Other	**3,464,142**	**158,875**	**(287,819)**	**3,335,198**	3,122,437	161,647	(243,682)	3,040,402
Total	**71,633,701**	**845,192**	**(2,363,913)**	**70,114,980**	60,397,411	735,913	(1,842,787)	59,290,537

- **Collateral**

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

The amount of commercial collateral held as security for financing that are credit-impaired as at 31 December 2020 are as follows:

SAR '000	**2020**	2019
Total fair value of collateral	**206,451**	162,154

30. MARKET RISK

Market risk is the risk that the fair value to future cash flows of the financial instruments will fluctuate due to changes in market variables such as profit rate, foreign exchange rates and equity prices.

a. Profit rate risk

Cash flow profit rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market profit rates. The Group does not have any significant exposure to the effects of fluctuations in prevailing level of market profit rates on its future cash flows as a significant portion of profit earning financial assets and profit bearing liabilities are at fixed rates and are carried in the consolidated financial statements at amortized cost. In addition to this, a substantial portion of the Group's financial liabilities are non-profit bearing.

b. Foreign exchange rate risk

Foreign exchange rate risk represents the risk of change in the value of financial instruments due to change in exchange rates. The Group is exposed to the effects of fluctuations in foreign currency exchange rates on both its financial position and on its cash flows. The Group's management sets limits on the level of exposure by individual currency and in total for intra day positions, which are monitored daily.

The Group had the following summarized exposure to foreign currency exchange rate risk as at December 31:

	2020		2019	
	Saudi Riyal SAR' 000	**Foreign currency SAR' 000**	Saudi Riyal SAR' 000	Foreign currency SAR' 000
Assets				
Cash and balances with central banks	**5,702,217**	**43,136**	7,835,872	79,980
Due from banks and other financial institutions, net	**1,415,677**	**763,753**	3,642,191	399,213
Investments, net	**12,188,718**	**2,684,467**	9,659,197	1,329,029
Financing, net	**68,289,460**	**1,825,520**	58,556,407	734,130
Other assets	**912,206**	**22,546**	1,828,337	72,747
Liabilities and equity				
Due to banks, central bank and other financial institutions	**4,783,675**	**619,255**	135,909	509,211
Customer deposits	**67,558,521**	**3,994,368**	64,758,251	2,347,292
Sukuk	**2,004,876**	**-**	2,007,768	-
Other liabilities	**6,045,986**	**6,708**	6,808,099	10,979
Equity	**10,730,403**	**-**	9,373,859	52,064

A substantial portion of the net foreign currency exposure to the Group is in US Dollars, where SAR is pegged to US Dollar. The other currency exposures are not considered significant to the Group's foreign exchange rate risks and as a result the Group is not exposed to major foreign exchange rate risks.

The Bank has performed a sensitivity analysis over one year time horizon for the probability of changes in foreign exchange rates, other than US Dollars, using historical average exchange rates and has determined that there is no significant impact on its net foreign currency exposures.

Currency position

At the end of the year, the Group had the following significant net exposures denominated in foreign currencies:

	2020 SAR' 000 Long/(short)	2019 SAR' 000 Long/(short)
US Dollars	**710,125**	(345,234)
Kuwaiti Dinars	**8,320**	5,390
Pakistani Rupees	**32,652**	60,665
Euro	**(5,361)**	(50,188)
UAE Dirhams	**22,506**	13,965
Bangladeshi Takas	**21,591**	9,499
Others	**41,321**	1,456
Total	**831,154**	(304,447)

c. Investment price risk

Investment risk refers to the risk of decrease in fair values of equities, mutual funds and sukuk in the Group’s FVOCI investment portfolio as a result of possible changes in levels of market indices and the value of individual stocks.

The effect on the Group’s investments due to reasonable possible change in market indices, with all other variables held constant is as follows:

	December 31, 2020		December 31, 2019	
Security types	**Change in investment price %**	**Effect in SAR‘ 000**	Change in investment price %	Effect in SAR‘ 000
Equity				
Quoted	±10	**29,886**	±10	29,155
Unquoted	±2	**3,343**	±2	3,318
Mutual Funds				
Quoted	±10	**30,772**	±10	32,644
Unquoted	±2	**9,979**	±2	10,797
Sukuk				
Quoted	±10	**283,974**	±10	116,351
Unquoted	±2	**189,307**	±2	144,164

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 mind, maintaining a healthy balance of cash, cash equivalents and readily marketable securities.

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

In accordance with Banking Control Law and the regulations issued by central bank, the Bank maintains a statutory deposit with central bank equal to 7% (2019: 7%) of total monthly average demand deposits and 4% (2019: 4%) of monthly average time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of its total deposits, in the form of cash and assets, which can be converted into cash within a period not exceeding 30 days.

The Bank has the ability to raise additional funds through special investment arrangements facilities with central bank.

a) Analysis of discounted financial assets and financial liabilities by expected maturities:

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

2020 SAR' 000	Within 3 Months	3 months to 1 year	Over one year to 5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with central banks	**1,741,229**	**-**	**-**	**-**	**4,004,124**	**5,745,353**
Cash in hand	1,582,322	-	-	-	-	**1,582,322**
Balances with central bank	158,907	-	-	-	4,004,124	**4,163,031**
Due from Banks and other financial institutions	**1,415,857**	**392,821**	**370,752**	**-**	**-**	**2,179,430**
Demand	575,446	-	-	-	-	**575,446**
Commodity murabaha	840,411	392,821	370,752	-	-	**1,603,984**
Investments, net	**1,069,525**	**-**	**1,968,490**	**10,562,500**	**1,272,670**	**14,873,185**
FVOCI	-	-	1,968,490	5,672,718	465,998	**8,107,206**
FVTPL	-	-	-	-	806,672	**806,672**
Amortized cost	1,069,525	-	-	4,889,782	-	**5,959,307**
Financing, net	**9,968,623**	**11,784,088**	**27,154,766**	**21,207,503**	**-**	**70,114,980**
Retail	867,525	3,633,424	15,464,869	15,698,446	-	**35,664,264**
Commercial	9,101,098	8,150,664	11,689,897	5,509,057	-	**34,450,716**
Other assets	**-**	**-**	**-**	**-**	**725,383**	**725,383**
Total assets	**14,195,234**	**12,176,909**	**29,494,008**	**31,770,003**	**6,002,177**	**93,638,331**
Liabilities						
Due to banks, central bank and other financial institutions	**688,727**	**2,720,153**	**1,994,050**	**-**	**-**	**5,402,930**
Demand	81,046	-	-	-	-	**81,046**
Direct investment	607,681	2,720,153	1,994,050	-	-	**5,321,884**
Customer deposits	**8,541,495**	**705,781**	**274,811**	**-**	**62,030,802**	**71,552,889**
Demand	-	-	-	-	40,185,062	**40,185,062**
Direct investment	8,541,495	705,781	274,811	-	-	**9,522,087**
Albilad account (Mudarabah)	-	-	-	-	19,800,317	**19,800,317**
Other	-	-	-	-	2,045,423	**2,045,423**
Sukuk	**-**	**-**	**-**	**2,004,876**	**-**	**2,004,876**
Other liabilities	**-**	**-**	**-**	**-**	**5,241,305**	**5,241,305**
Total Liabilities	**9,230,222**	**3,425,934**	**2,268,861**	**2,004,876**	**67,272,107**	**84,202,000**
Commitments & contingencies*	**1,842,033**	**3,172,009**	**1,923,123**	**2,618,605**	**-**	**9,555,770**

* The cumulative maturities of commitments & contingencies are given in note 19 of the financial statements.

2019 SAR' 000	Within 3 Months	3 months to 1 year	Over one year to 5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with central banks	4,362,480	-	-	-	3,553,372	7,915,852
Cash in hand	1,669,426	-	-	-	-	1,669,426
Balances with central bank	2,693,054	-	-	-	3,553,372	6,246,426
Due from Banks and other financial institutions	2,964,333	505,371	571,700	-	-	4,041,404
Demand	210,751	-	-	-	-	210,751
Commodity murabaha	2,753,582	505,371	571,700	-	-	3,830,653
Investments, net	-	250,036	981,728	8,433,847	1,322,615	10,988,226
FVOCI	-	250,036	981,728	6,340,840	456,323	8,028,927
FVTPL	-	-	-	-	866,292	866,292
Amortized cost	-	-	-	2,093,007	-	2,093,007
Financing, net	7,494,427	10,653,513	27,066,150	14,076,447	-	59,290,537
Retail	964,670	3,335,214	13,281,670	10,446,607	-	28,028,161
Commercial	6,529,757	7,318,299	13,784,480	3,629,840	-	31,262,376
Other assets	-	-	-	-	1,719,493	1,719,493
Total assets	14,821,240	11,408,920	28,619,578	22,510,294	6,595,480	83,955,512
Liabilities						
Due to banks, central bank and other financial institutions	645,120	-	-	-	-	645,120
Demand	212,045	-	-	-	-	212,045
Direct investment	433,075	-	-	-	-	433,075
Customer deposits	10,127,326	2,328,892	-	-	54,649,325	67,105,543
Demand	-	-	-	-	33,669,863	33,669,863
Direct investment	10,127,326	2,328,892	-	-	-	12,456,218
Albilad account (Mudarabah)	-	-	-	-	19,315,147	19,315,147
Other	-	-	-	-	1,664,315	1,664,315
Sukuk	-	-	-	2,007,768	-	2,007,768
Other liabilities	-	-	-	-	6,102,620	6,102,620
Total Liabilities	10,772,446	2,328,892	-	2,007,768	60,751,945	75,861,051
Commitments & contingencies*	1,720,735	2,801,909	2,168,166	1,509,452	-	8,200,262

* The cumulative maturities of commitments & contingencies are given in note 19 of the financial statements.

b) Analysis of financial liabilities by the remaining undiscounted contractual maturities as at December 31, are as follows:

The table below summarizes the maturity profile of the Bank's financial liabilities at 31 December 2020 and 2019 based on contractual undiscounted repayment obligations whereas the Bank manages the inherent liquidty risk based on expected undiscounted cash inflows.

As investment and financing profit payments up to contractual maturity are included in the table, totals do not match with the statement of financial position.

2020 **SAR' 000**	**Within 3 Months**	**3 months to 1 year**	**Over one year to 5 years**	**Over 5 Years**	**No fixed Maturity**	**Total**
Financial liabilities						
Due to banks, central bank and other financial institutions	**688,781**	**2,730,499**	**2,194,422**	**-**	**-**	**5,613,702**
Customers' deposits	**8,546,047**	**708,089**	**277,708**	**-**	**62,030,802**	**71,562,646**
2019 SAR' 000						
Financial liabilities						
Due to banks, central bank and other financial institutions	645,617	-	-	-	-	645,617
Customers' deposits	10,177,569	2,411,922	-	-	54,649,325	67,238,816

32. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

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

- **Determination of fair value and fair value hierarchy**

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted prices in active markets for the same or identical instrument that an entity can access at the measurement date;

Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3: valuation techniques for which any significant input is not based on observable market data.

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

		Fair value			
SAR' 000	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total**
December 31, 2020					
Financial assets measured at fair value					
Held as FVTPL	**806,672**	**307,718**	**498,954**	**-**	**806,672**
Held as FVOCI (equity instruments)	**465,998**	**298,855**	**-**	**167,143**	**465,998**
Held as FVOCI (debt instruments)	**7,641,208**	**735,380**	**-**	**6,905,828**	**7,641,208**
Financial assets not measured at fair value					
Due from banks and other financial institutions, net	**2,179,430**	**-**	**-**	**2,179,430**	**2,179,430**
Investments held at amortized cost	**5,959,307**	**2,104,355**	**-**	**3,854,952**	**5,959,307**
Financing, net	**70,114,980**	**-**	**-**	**70,006,017**	**70,006,017**

		Fair value			
SAR' 000	Carrying value	Level 1	Level 2	Level 3	Total
December 31, 2019					
Financial assets measured at fair value					
Held as FVTPL	866,292	326,443	539,849	-	866,292
Held as FVOCI (equity instruments)	457,426	291,550	-	165,876	457,426
Held as FVOCI (debt instruments)	7,571,501	695,369	-	6,876,132	7,571,501
Financial assets not measured at fair value					
Due from banks and other financial institutions, net	4,041,404	-	-	4,041,404	4,041,404
Investments held at amortized cost	2,093,007	468,140	-	1,624,867	2,093,007
Financing, net	59,290,537	-	-	59,268,946	59,268,946

		Fair value			
SAR' 000	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total**
December 31, 2020					
Financial liabilities not measured at fair value					
Due to banks, central bank and other financial institutions	**5,402,930**	**-**	**-**	**5,402,930**	**5,402,930**
Customers' deposits	**71,552,889**	**-**	**-**	**71,552,889**	**71,552,889**
Sukuk	**2,004,876**	**-**	**-**	**2,004,876**	**2,004,876**

		Fair value			
SAR' 000	Carrying value	Level 1	Level 2	Level 3	Total
December 31, 2019					
Financial liabilities not measured at fair value					
Due to banks, central bank and other financial institutions	645,120	-	-	645,120	645,120
Customers' deposits	67,105,543	-	-	67,105,543	67,105,543
Sukuk	2,007,768	-	-	2,007,768	2,007,768

The fair values of financial instruments which are not measured at fair value in these consolidated financial statements are not significantly different from the carrying values included in the consolidated financial statements.

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

The fair values, of profit bearing customer deposits, held at amortized cost investment, due from and due to banks and other financial institutions which are carried at amortized cost, are not significantly different from the carrying values included in the consolidated financial statements, since either the current market profit rates for similar financial instruments are not significantly different from the contracted rates, or for the short duration of certain financial instruments particularly due from and due to banks and other financial institutions or a combination of both. An active market for these instruments is not available and the Group intends to realize the carrying value of these financial instruments through settlement with the counter party at the time of their respective maturities.

Financing classified as level 3 have been valued using expected cash flows discounted at relevant SIBOR.

Fair Value Through Other Comprehensive Income (FVOCI) investments classified as level 3 include unlisted sukuk which have been measured by the management at fair value using broker quotes or estimating present value by discounting cash flows using adjusted discount rate. The adjusted discount rate is calculated using CDS of a similar entity using publicly available information. The valuation method has been approved by ALCO.

During the current year, no financial assets / liabilities have been transferred between level 1 and / or level 2 fair value hierarchy.

- **Impact of COVID-19 on assessment of fair value of the Bank's unquoted investments**

The COVID-19 led management to expand the inputs and analysis to support the current fair value methodology for its unquoted investments. The Bank used following additional criteria, in the absence of recent pricing activity and based on availability of information with the Bank:

- review of performance of investments against budgets in the period before COVID-19 and following onset of COVID-19 related lockdowns and restrictions;
- cost reduction and cash flow measures put in place by the investee management to limit COVID-19 impact; and
- trajectory of the businesses through the recovery period following COVID-19 lockdown period and impact on long-term revenue generating potential.

The revised procedures and ongoing COVID-19 impact has not led to a change in the fair value of the Bank's unquoted investments.

- **Reconciliation of level 3 fair values held as FVOCI**

	December 31, 2020 SAR' 000	December 31, 2019 SAR' 000
Balance at the beginning of the year	**7,042,008**	3,782,086
Purchase	**1,250**	3,022,876
Sale	**(248,933)**	-
Gain / (loss) included in OCI		
Net changes in fair value (unrealised)	**278,645**	237,046
Total	**7,072,970**	7,042,008

33. RELATED PARTY BALANCES AND TRANSACTIONS

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

The nature and balances of transactions with the related parties for the years ended December 31 are as follows:

	2020 SAR' 000	2019 SAR' 000
a) Directors, key management personnel, other major shareholders and their affiliates balances:		
• Financing	**5,021,041**	5,384,531
• Commitments and contingencies	**113,211**	122,549
• Deposits	**353,817**	271,235

	2020 SAR' 000	2019 SAR' 000
b) Group's mutual funds:		
These are the outstanding balances with Group's mutual funds as of December 31:		
• Customers' deposits	**313**	32,954
• Investments - units	**473,888**	428,552

c) Income and expense:

Directors, Key management personnel, other major shareholders and their affiliates and mutual funds managed by the Group:

	2020 SAR' 000	2019 SAR' 000
• Income	**225,517**	272,728
• Expenses	**10,325**	10,936

d) The total amount of compensation paid to key management personnel during the year is as follows:

	2020 SAR' 000	2019 SAR' 000
• Employee benefits	**89,264**	75,802

34. CAPITAL ADEQUACY

The Group's objectives when managing capital are to comply with the capital requirements set by central bank; to safeguard the Group's ability to continue as a going concern; and to maintain a strong capital base.

Capital adequacy and the use of regulatory capital are monitored regularly by the Group's management. central bank requires holding the minimum level of the regulatory capital of and maintaining a ratio of total regulatory capital to the risk-weighted asset at or above the agreed minimum of 8%.

The Group monitors the adequacy of its capital using ratios established by central bank. These ratios measure capital adequacy by comparing the Group's eligible capital with its consolidated statement of financial position assets and commitments at a weighted amount to reflect their relative risk.

The following table summarizes the Group's Pillar-I Risk Weighted Assets, Tier I and Tier II Capital and Capital Adequacy Ratios.

	2020	2019
	SAR' 000	SAR' 000
Credit Risk RWA	**67,979,379**	63,300,773
Operational Risk RWA	**7,243,454**	6,384,244
Market Risk RWA	**839,000**	414,729
Total Pillar-I RWA	**76,061,833**	70,099,746
Tier I Capital	**10,801,732**	9,473,031
Tier II Capital	**2,849,742**	2,791,260
Total Tier I & II Capital	**13,651,474**	12,264,291
Capital Adequacy Ratio %		
Tier I ratio	**14.20%**	13.51%
Tier I + Tier II ratio	**17.95%**	17.50%

35. INVESTMENT MANAGEMENT AND BROKERAGE SERVICES

The Bank offers investment management services to its customers through its subsidiary, Albilad Investment Company. These services include the management of nine public mutual funds (2019: nine public mutual funds) with assets under management (AUM) totaling SAR 3,066 million (2019: SAR 1,995 million). Al bilad Investment acts as the fund manager of these funds. All of these funds comply with Shariah rules and are subject to Shariah controls on a regular basis. Some of these mutual funds are managed in association with external professional investment advisors.

The Group also manages private investment portfolios on behalf of its customers amounting to SAR 826.5 million (2019: SAR 1,994 million). The financial statements of these funds and private portfolios are not included in the consolidated financial statements of the Group. However, the transactions between the Group and the funds are disclosed under related party transactions (see note 33).

36. IBOR TRANSITION (PROFIT RATE BENCHMARK REFORMS)

A fundamental review and reform of major interest rate benchmarks is being undertaken globally. The International Accounting Standards Board ("IASB") is engaged in a two-phase process of amending its guidance to assist in a smoother transition.

Management is running a project on the Bank's overall transition activities and continues to engage with various stakeholders to support an orderly transition. The project is significant in terms of scale and complexity and will impact products, internal systems and processes.

37. SAMA SUPPORT PROGRAMS AND INITIATIVES

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

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

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

As part of the deferred payments program launched by SAMA, the Bank was required to defer payments for a total of nine months (original deferment for six months was followed on by a further extension of three months) on lending facilities to eligible MSMEs. The payment reliefs were considered as short-term liquidity support to address the borrower's potential cash flow issues. The Bank effected the payment reliefs by deferring the instalments falling due within the period from 14 March 2020 to 14 September 2020 for a period of six months and then further deferring the installments falling due within the period from 15 September 2020 to 14 December 2020 for a period of three months without increasing the facility tenure. The accounting impact of these changes in terms of the credit facilities has been assessed and were treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in modification losses which have been presented as part of net financing income.

Further to the above, SAMA on December 2020 extended the deferred payment program until March 31, 2021. The Bank has effected the payment reliefs by deferring the instalments falling due within the period from 15 December 2020 to 31 March 2021 without increasing the facility tenure. The accounting impact of these changes in terms of the credit facilities has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in the Bank recognising an additional modification loss of SAR 41 million.

As a result of the above program and related extensions, the Bank has deferred the payments amounting to SAR 2.8 billion on MSMEs portfolio and accordingly, has recognised total modification losses of SAR 115 million during the year. The total exposures against these customers amounted to SAR 8.9 billion as at the year end.

The Bank generally considered the deferral of payments in hardship arrangements as an indication of a SICR but the deferral of payments under the current COVID-19 support packages have not, in isolation, been treated as an indication of SICR.

The Bank continues to monitor the lending portfolios closely and reassess the provisioning levels as the situation around COVID-19 evolves; however, management has recorded SAR 73 million of overlays to reflect potential further credit deterioration.

The Bank has booked SAR 22.9 million incremental total ECL for the MSME portfolio having total exposure of SAR 8.9 billion.

If the balance of COVID-19 support packages in stage (1) move to stage (2), additional ECL provisions would be needed during 2021 based on the credit facility - level assessment and the ability to repay amounts due after the deferral period ends.

In order to compensate the related cost that the Bank is expected to incur under the SAMA and other public authorities program, the Bank has received in aggregate SAR 2.1 billion of profit free deposit in number of tranches from SAMA during the year ended 31 December 2020, with varying maturities. Management had determined based on the communication from SAMA, that the profit free deposits primarily relates to compensation for the modification loss incurred on the deferral of payments. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in a total income of SAR 233 million, of which SAR 114 million has been recognised in the statement of income and SAR 119 million has been deferred. The management has exercised certain judgements in the recognition and measurement of this grant income. During the year ended 31 December 2020, SAR 12.2 million has been charged to the statement of income relating to unwinding of the day 1 income.

As at December 31, 2020, the Bank has participated in SAMA’s facility guarantee programs and the accounting impact for the year is immaterial.

Furthermore, during the year ended December 31, 2020, the Bank has recognised reimbursement from SAMA for the forgone POS and e-commerce service fee amounting to SAR 9.2 million.

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

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

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

In this regard, during the year ended December 31, 2020, the Bank received SAR 2.6 billion profit free deposit with one-year maturity. Management has determined based on the communication received from SAMA, that this government grant primarily relates to liquidity support. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in a total income of SAR 25.5 million, of which SAR 15.2 million has been recognised in the statement of income for the year ended December 31, 2020 and with the remaining amount deferred.

Bank's initiative - Health care sector support

In recognition of the significant efforts that our healthcare workers are putting in to safeguard the health of our citizens and residents in response to the COVID-19 outbreak, the Bank decided to voluntarily postpone payments for all public and private health care workers who have credit facilities with the Bank for three months. This resulted in the Bank recognizing a day 1 modification loss of SAR 28.8 million during the year ended December 31, 2020, which was presented as part of the net income from investing and financing assets.

38. COMPARATIVE FIGURES

Certain prior year figures have been reclassified to conform with the current year presentation.

39. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were authorized for issue by the Board of Directors on 29 Jumada Al Akhir 1442H (corresponding to February 11, 2021).