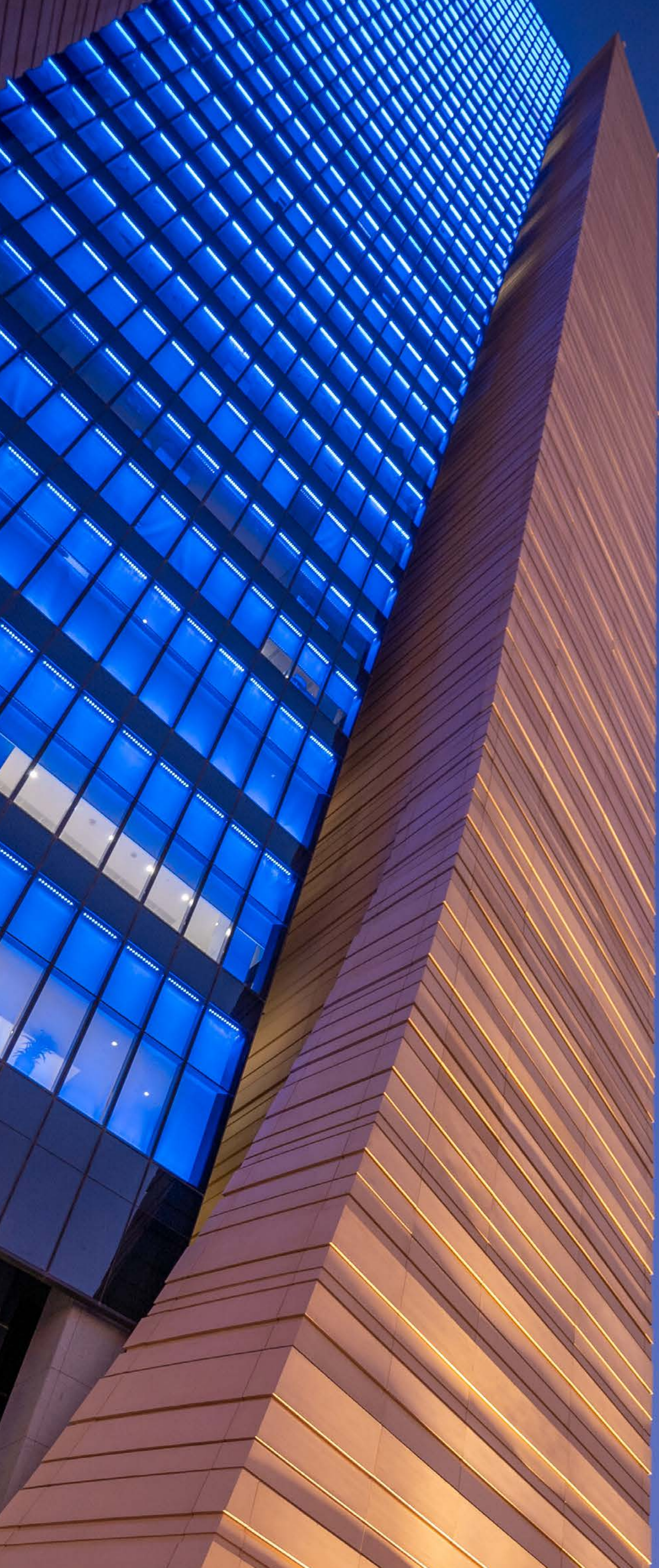

مصرف الراجحي
Al Rajhi Bank

BANK OF THE FUTURE

2019 Annual Report

IN THE NAME OF ALLAH
THE MOST MERCIFUL, THE MOST GRACIOUS

The Custodian of the Two Holy Mosques
King Salman Bin Abdulaziz Al Saud

His Royal Highness Crown Prince
Mohammad Bin Salman Bin Abdulaziz Al Saud

مصرف الراجحي
Al Rajhi Bank

BANK OF THE FUTURE

Over the last six decades, Al Rajhi Bank earned its position as the most successful bank in the region and leading Islamic Bank in the world.

These achievements are a testament to the power of a strong vision and purpose shared by all our partners – from our nation's leaders and its government, to our Board, management and employees, to all our valued strategic partners, customers, suppliers and shareholders.

But we are not satisfied. We must capture the great opportunity that lies before us, building on the momentum created over the past years to confidently deliver on our 2020 objectives and drive the Kingdom's Vision 2030.

So, we begin a new chapter in our ambitious journey, once again seeking to harness the power of all our stakeholders behind a new and ambitious idea: that together we can transform Al Rajhi Bank into the "Bank of the Future".

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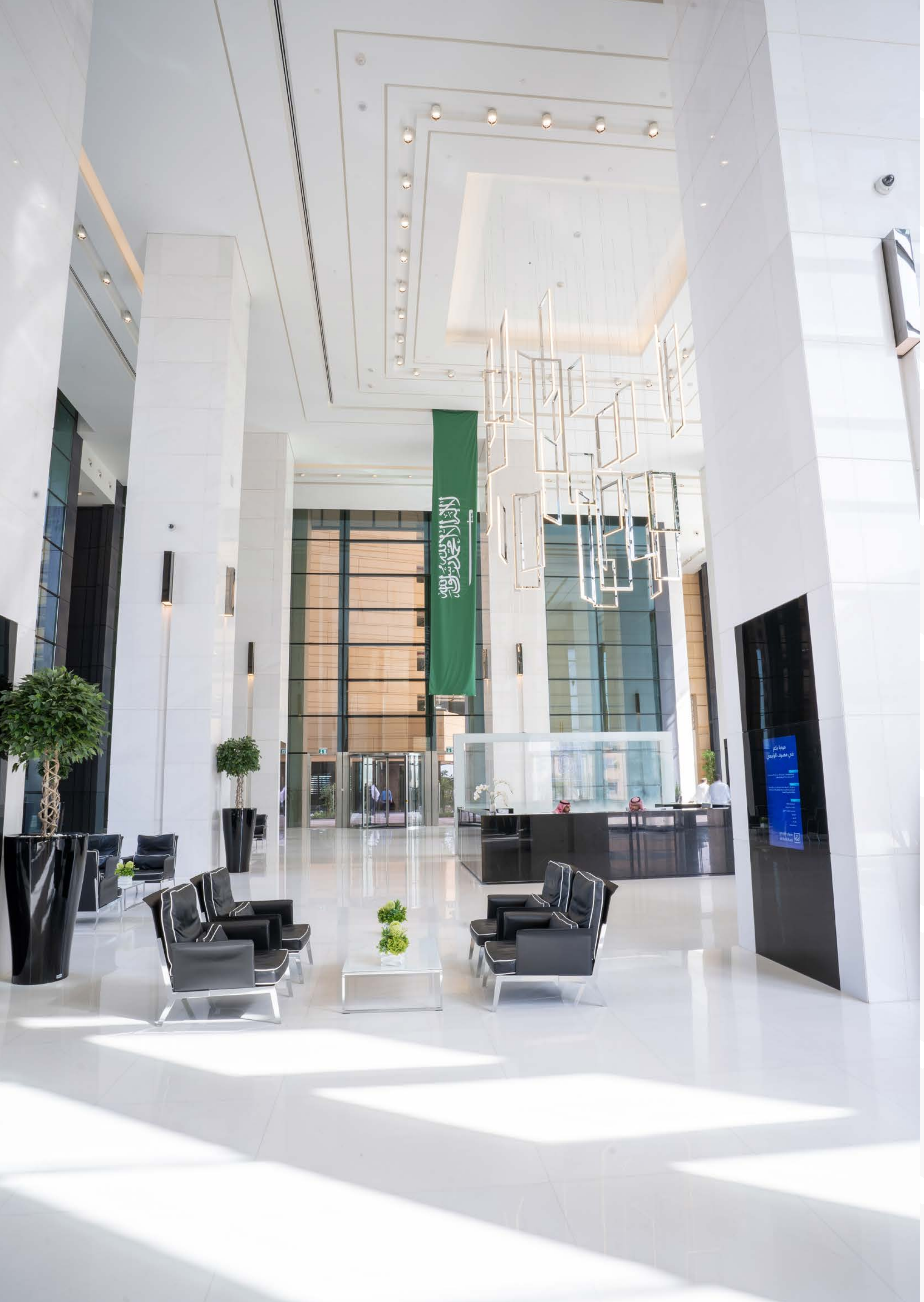
https://arb.sa/report2019



01

Bank Profile

About the Bank

History

Referred to as the "Bank" in this document, Al Rajhi Bank (ARB) received its current name in 2006 but was originally established in 1957 as an exchange house and converted to a bank under the name Al Rajhi Banking Corporation in 1987. The Bank is a Saudi joint stock company that was formed and licensed in accordance with Royal Decree No. M/59 and Article 6 of the Council of Ministers' Resolution No. 245, both of June 1987. With its headquarters in Riyadh, Kingdom of Saudi Arabia, the Bank operates under Commercial Registration No. 1010000096 and is listed on the Saudi Stock Exchange (Tadawul) with the Ticker No. RJHI.

Al Rajhi Bank Group

- Real Estate
- Brokerage
- Insurance
- Professional Services
- Securities

Our Bank

- Retail banking
- Corporate banking
- Treasury
- International business
- SMEs

Vision, Mission and Values

Our Vision

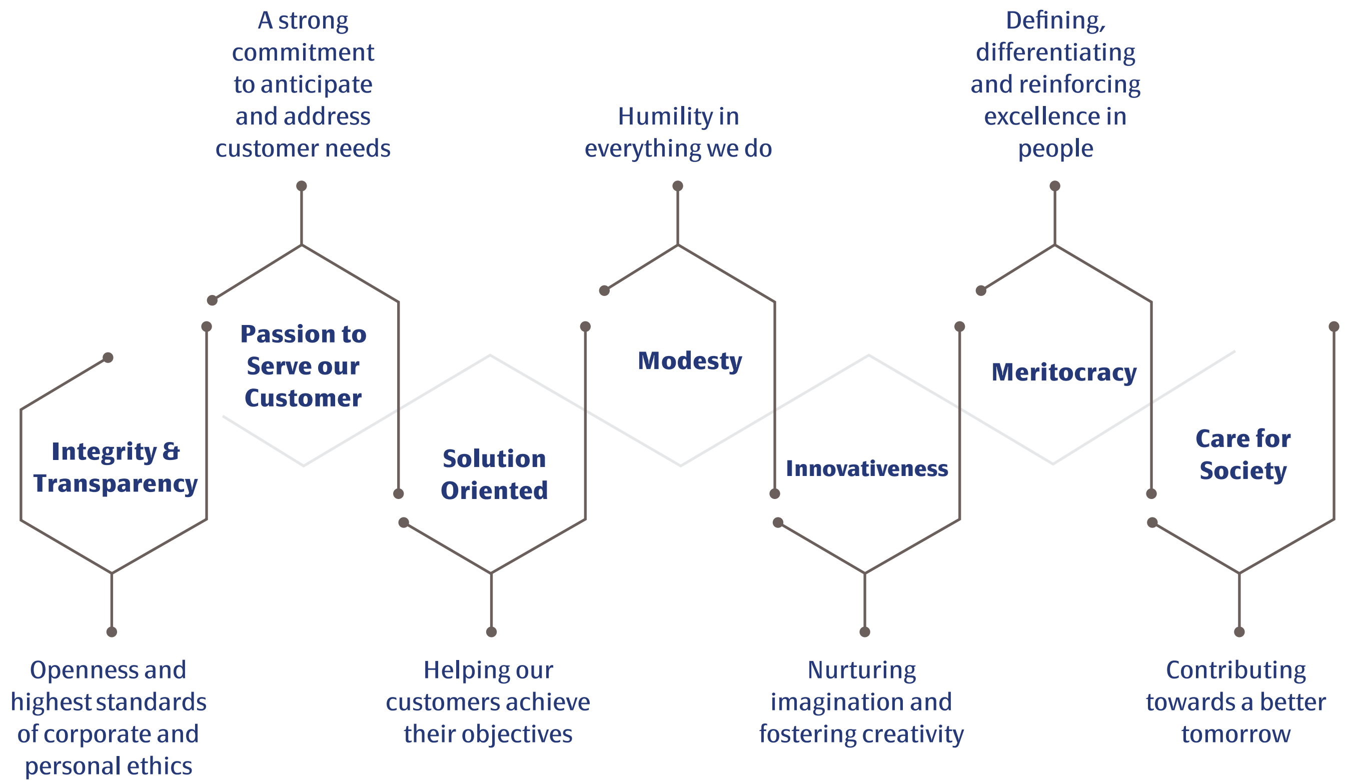
To be a trusted leader delivering innovative financial solutions to enhance the quality of life of people everywhere.

Our Mission

To be the most successful bank admired for its innovative service, people, technology, and Sharia compliant products, both locally and internationally.

Our Values

Everything the Bank does is built around its core values, which puts the customer at the heart of all its activities.



2019 At a Glance

Financial highlights

Customer deposits (SAR Billion)

2019: SAR 312

2018: SAR 293

Increase: 6.3%

Earnings per share (SAR)

2019: SAR 4.06

2018: SAR 1.51

Increase: 169%

Total capital adequacy ratio (%)

2019: 19.9%

2018: 20.20%

Total assets (SAR Billion)

2019: SAR 384

2018: SAR 364

Increase: 5.5%

Net income (after Zakat) (SAR Billion)

2019: SAR 10,159

2018: SAR 3,768

Increase: 170%

Largest Islamic Bank worldwide
By assets and market capitalization

No. 1

In retail bank in the Middle East
In retail deposits and income

In Distribution network in the Middle East By number of branches, POS, ATMs and remittance centres

In banking transactions in KSA
4 of 10 transactions in KSA

As a Bank brand in KSA
Brand Power Score

In banking sector in NPS in KSA

Operational highlights

Digital: manual ratio

2019: SAR 67:33

2018: SAR 56:44

Staff strength

2019: 13,146

Saudization rate (%)

2019: 96%

02

Strategic Report

Chairman's Statement

> "As the Kingdom forges ahead with its bold plans for socio-economic development and diversification, encapsulated in the Saudi Vision 2030, Al Rajhi Bank has aligned its strategy with the needs of the nation."

Net profit

SAR 10.1 million

in 2019 from

SAR 3.7 million

in 2018

In what has been yet another record year, Al Rajhi Bank continued to deliver significant growth across its constituent business groups and branches. Despite the complex dynamics at work in across our sector and markets, the Bank's net income for 2019 increased to SAR 10,159 million compared to SAR 3,768 million in 2018.

Market Dynamics and the Kingdom's Vision 2030

As the Kingdom forges ahead with its bold plans for socio-economic development and diversification, encapsulated in the Saudi Vision 2030, Al Rajhi Bank has aligned its strategy with the needs and aspirations of our kingdom. By targeting private sector growth and the continuous development of capital market process, we seek to contribute to the revitalization and growth of the financial sector and assist the Kingdom in its transition to a global investment powerhouse.

Throughout 2019 we continued to achieve robust progress across all five of the strategic pillars of our business– Accelerate Growth, Become Employer of Choice, Customer Focus, Digital Leadership and Excellence in Execution – in addition to expanding our international footprint through our branches in Kuwait ,Jordan and Malaysia and providing our stakeholders with increasing value year on year.

Our activities during the year included a variety of contributions to support the Kingdom's Vision 2030, including participation in the ARAMCO IPO, dramatically increasing the number of Saudi homeowners via our expanding mortgage program, supporting on enhancing SMEs capabilities of growth and providing it with the best banking services throughout the Kingdom, providing structured finance for water, electricity and power companies – including in the renewables segment – and supporting burgeoning new industries such as tourism, entertainment and both healthcare and education privatization, as both considered essential pillars for human development, progress and civilization at all times and everywhere.

I am also pleased to report that the Bank distributed a dividend of SAR 1.5 per share for the first half of 2019 and proposed a final dividend of SAR 3 per share for 2019. Total dividends for the year amounted to SAR 7,500 million, representing 74% of earnings.

Dedicated and Loyal Staff

Al Rajhi Bank has invested heavily in our sustainability as a business, as well as in our increasingly diverse workforce, and our employees have made us proud by doubling their volunteering hours in 2019. Furthermore, we received ISO Green Certification for our new head office building and are now the largest employer of women in the Kingdom's banking sector.

We are keenly aware of our responsibilities and commitments to serve our society and natural environment, therefore, we are applying stringent corporate governance standards to ensure adherence to these values across our rules, practices, systems and procedures. As we refine our extensive governance structures, we will continue to balance the interests of our multiple stakeholder groups with our core objectives in terms of enhancing our business and services value.

To this end, annual reviews are undertaken of our Corporate Governance Manual, first published in 2014, to update its rules and items to ensure sustained effective application of procedures, laws and regulations by Board Committees and Management Committees in compliance with both the Corporate Governance Regulations issued by the Kingdom's Capital Markets Authority and the Saudi Arabian Monetary Agency's (SAMA) Corporate Governance Code for Banks, which are applied in all our operations within the Kingdom.

Robust Risk Management and Control

The Bank's current Key Risk Profile reflects both the efficacy of our comprehensive risk management activities and our strong capital and liquidity position; also, our compliance and governance standards have again served to deliver significantly lower Credit Risk Losses, Operational Risk Losses and Market Risks exposure over 2019.

In addition to accelerating growth, becoming the employer of choice, focusing on customer, achieving digital leadership and excellence in delivery, we have made significant improvements to the Bank's Risk Management frameworks and control functions, focusing on accelerated business growth and decreasing credit losses.

We also strengthened the Bank's retail and corporate credit strategies and control processes; increased our IT security, BCM and disaster recovery capabilities; and nurtured our strong teamwork ethic via relationships with our key business partners.

Acknowledgements

Both myself and the Board of Directors remain indebted to the Custodian of the Two Holy Mosques and the Crown Prince for their strategic vision and leadership. We also wish to convey our appreciation to the Ministries of Finance, and Commerce and Investment; SAMA; CMA; and their eminences the Chairman and members of the Bank's Sharia Board for their invaluable advice and guidance.

We also seek to express our gratitude to our shareholders, correspondent banks and customers, and our deep admiration for all of our employees, whose tireless dedication has been instrumental in realizing our vision and mission. I also wish to thank my fellow Members of the Board for their invaluable support and counsel.

Abdullah bin Sulaiman Al Rajhi
Chairman

CEO’s Message

32.9%
Market share in 2019

27.9%
in 2018

Al Rajhi Bank experienced another successful record year, continuing on its transformative journey whilst delivering superior returns and value for our shareholders, customers and staff – a journey that mirrors the changes being experienced across the Kingdom.

This progress is also a testament to the success of our ABCDE strategy that has guided our development in recent years and brought consistently strong financial and non-financial results, with operating income increasing by 41.75% between 2015 and 2019 and net profit by 42.46% over the same period.

A Year of Accelerating Growth

The Bank once again outperformed its peers in the Saudi market in 2019, gaining significant market share across its range of products and services to deliver a 12% increase in profit and a 13% rise in income year-on-year.

Our mortgage portfolio grew by 63%, reflecting our role in delivering the nation’s vision by supporting more Saudi homeowners than ever before. By centralizing our mortgage function, implementing advances in automation and achieving process improvements that increase daily throughput and efficiency, we were able to offer better services to our customers and expand our market share to 32.9%, from 27.9% last year. We provided SAR 4.9 billion in financing to Small and Medium Sized Enterprises (SMEs).

Our current accounts grew 6% over 2018, and our distribution network remained the largest and most technically advanced in the nation, comprising 546 branches (including 157 ladies sections/branches), 231 Remittance Centers, 300 Affluent Lounges, 300 automated kiosks and 5,215 ATM machines.

To further accelerate this growth and serve our expanding customer base more effectively, we introduced a number of ‘firsts’ during the year, including extended working hours in our dedicated Corporate Banking service centers during the Ramadan and Eid holidays; FX flexible hedging solutions for our corporate clients in partnership with Treasury group; and a facility to add beneficiaries via their mobile telephone numbers on our mobile banking app.

In the present environment we remain focused on effective balance sheet management, further improving our product mix and driving higher average investment portfolio balances. As a result, we grew non-profit bearing deposits to 93% of the Bank’s total deposits representing in excess of 25% market share. This helped drive our net profit margin which improved by 47 basis points in 2019 to 5.22.

We also played a key role in the successful Aramco IPO in late 2019 and made strong progress in corporate structured finance, winning several high-profile deals while continuing to build our capabilities and reputation in the market.

> “The Bank once again outperformed its peers in the Saudi market in 2019, gaining significant market share across its range of products and services to deliver a 12% increase in profit and a 13% rise in income year-on-year.”

Being an Employer of Choice

With over 12,000 employees across our footprint, we are proud to be one of the Kingdom’s largest and most significant job providers and have worked hard over the years to become an employer of choice driving performance and profitability by attracting, developing and engaging top talent.

In 2019 we achieved our highest ever employee engagement scores with overall engagement reaching 63%, representing a significant increase since 2015, when our engagement score stood at 27%. This extremely encouraging level of engagement translates into more effective customer service, delivered by employees who are inspired to act in our customers’ best interests.

One improving focus area is professional development, which reflects our commitment to enhancing the knowledge, skills and career opportunities of everyone across the Bank. This continued in 2019 with more than 71,000 days of training and development, including leadership development for senior executives and new programs in technology, security and general management.

Meanwhile, the Saudization of our staff continued in support of the goals of the Kingdom’s Vision 2030, reaching 96% in 2019, and our female workforce increased by 14.8% this year to account for 14.8% of the Bank’s employees – a 70% increase since 2015. We also launched a dedicated female graduate development program in 2019.

Employee benefits were also expanded with the addition of a new employee savings scheme to help our people to save for the future by matching their deposits, as well as providing a variety of additional enhanced employee benefits.

Aside from our responsibilities to our employees, the Bank also continues to improve the nature of its interactions with society, local communities and the environment. To this end, we launched our first ever Sustainability Report in 2019, laying the foundation for a long-term journey toward becoming a more sustainable organization and solidifying our position as a sector leader in the Kingdom. During 2019 we doubled the number of volunteering hours as part of 75 social responsibility programs in 22 cities.

Customers at the Center of our Business

We maintained our ongoing focus on delivering superior customer experiences throughout 2019, initiating improvements in services and systems, and becoming the leading bank in the Kingdom in terms of Net Promotor Score (NPS) for the first time – a measure based on customers’ willingness to recommend us to others. This leading rank reflects our 2019 score of 39% – a significant jump from our 14% score in 2018, when we ranked seventh. We also continued to lead in terms of our social media engagement, ranking first on Twitter, YouTube and Instagram.

We launched our expanded Innovation Center during the year in our new building– a facility that is expanding the level of customer input to both the design and prioritization of new features and products. The invaluable feedback gained from this facility has already supported the process of our conversion to digital banking channels and functionalities for a more seamless customer experience. Having delivered 13 new products during 2019 through an enhanced distribution network.

I am pleased to report that the success of these efforts and initiatives has served to strengthen our reputation in the market and the trust placed in us by our customers, as embodied in the awards presented to the Bank during 2019, including the "Market Leader in Saudi Arabia" and "Best Service in Saudi Arabia" in the area of Cash Management at the Euromoney Awards for Excellence.

Driving Digital Transformation

Al Rajhi Bank achieved major progress in 2019 in our efforts to meet the evolving needs of our customers, becoming the leader in our market and the premier banking brand in the Kingdom, with over five million active digital customers.

Much of our recent progress in this regard is the result of our ongoing digital transformation, which continued to deliver significant mobile and internet banking enhancements during 2019, further expanding our digital footprint. More than half of account openings are now digital and majority of customer transactions are carried out using our digital platforms.

In the past year we captured 26.3% of nationwide point of sale value (from 23.8% last year) via our 106,000+ POS terminals across the Kingdom. We also added 292 self-service kiosks and continued to harness a multitude of technological innovations such as blockchain, fingerprint identification technology and electronic signatures to make banking safer and more convenient for our customers.

Excellence in Execution

Al Rajhi Bank remains committed to ensuring the highest standards across all its activities and functions through our world-class compliance program. Having successfully applied the latest technologies and best practices to optimize both our human and technical capabilities.

Complementing our compliance infrastructure, we are also one of the biggest users of robotics in the Middle East, with state-of-the-art assets including 253 bots processing over 25 thousand transactions per day and vastly improving turnaround times. This has led to a 126% increase in transactions per month between 2015 and 2019, from 101 million to 228 million transaction. We also completed the establishment of our new head office and data center during 2019.

Ideally Positioned for Sustainable Success

In this final message as CEO of Al Rajhi Bank, I would like to express my sincere appreciation to the Board and our Chairman for their support and guidance, as well as to our customers and investors for their loyalty and commitment to our collective success.

For six decades, the Bank has been propelled to ever greater achievements by inspired leadership teams and dedicated employees. More recently, our ABCDE strategy has served to capitalize on this impressive past and position the Bank for long-term success.

In this regard, I am very proud of our staff and leadership team who have contributed to building what is today a highly successful, customer focused market leader that we can all be very proud of.

As I hand over the leadership of the Bank to Walid Al-Moqbel, a very experienced leader, I am confident the Bank will continue to deliver strong results in 2020 and beyond.

Steve Bertamini
Chief Executive Officer

Board of Directors

Abdullah Bin Sulaiman Al Rajhi

Committees membership
Executive Committee

Current positions
- Chairman of the Board and Chairman of Executive Committee – Al Rajhi Bank
- Chairman of the Board – Al Rajhi Company for Cooperative Insurance
- Chairman of the Board – Farabi Petrochemicals Company
- Chairman of the Board – Al Rajhi Holding Group
- Chairman of the Board – Al Rajhi Capital Company

Previous positions
At Al Rajhi Bank since 1979:

- Deputy General Manager of Financial Affairs
- Deputy General Manager of Investment and Foreign Relations
- Senior Deputy General Manager
- General Manager
- Chief Executive Officer

Qualifications
- Bachelor of Business Administration – King Abdulaziz University – 1979

Experience
Contributed to the conversion of Al Rajhi Exchange and Trade Company into a public joint stock company and held many leading positions in ARB for more than 35 years until his current position as the Chairman of the Board of Directors.

Alaa bin Shakib Al Jabri

Committees membership
Executive Committee, Board Risk Management Committee (BRMC), Nominations and Compensations Committee

Current positions
- Vice Chairman, Board Member, Executive Committee Member and Member of BRMC and Chairman of Nominations and Compensations Committee – Al Rajhi Bank
- Board Member and Chief Executive Officer – Medical and Pharmaceutical Services Company

Previous positions
- Board Member – SIMAH
- Board Member – Higher Education Fund
- Board Member – Saudi Travellers Cheques Company
- Board Member – Arab International Bank – Tunisia
- Board Member – Construction Products Holding Company
- Board Member – Rolaco Group

Qualifications
- Bachelor of BA – American University in Beirut
- Master of BA – Enseed, France

Experience
Having professional experience of more than 30 years, in the banking and financial fields, during which he held many leading positions in many local and international banks.

Salah bin Ali Abalkhail

Committees membership
Executive Committee, Governance Committee

Current positions
- Board Member, Executive Committee Member and Chairman of Governance Committee – Al Rajhi Bank
- Board Member – Al Rajhi Capital Company
- Partner and Chairman of the Board – National Veterinary Company
- Chairman and Office Owner – Salah Abalkhail Consulting Engineers

Previous positions
- Chairman of the Board – Salah Abalkhail & Co. Information Technology

At Norconsult Telematics Company since 1972:

- Project Engineer Assistant
- Project Engineer
- Project Manager
- Associate Consultant for the Company's projects
- Member of Engineering Committee – Ministry of Commerce

Qualifications
- Bachelor of Electrical Engineering – University of Arizona – 1972

Experience
Working in the field of advisory and investment for more than 40 years. He assumed the position of Board Member of Al Rajhi Bank, since the first tenure, and served as a member on many Board committees.

Abdulaziz bin Khaled Al Ghefaily

Committees membership
Executive Committee, Nominations and Compensations Committee

Current positions
- Board Member – Executive Committee
- Member – Member of Nominations and Compensations Committee – Al Rajhi Bank
- Board Member – Al Rajhi Capital Company
- Board Member – Savola Group
- Board Member – Panda Retail Company

Previous positions
- Worked from 1981 to 2013 at General Organization for Social Insurance "GOSI"
- Acting General Manager- Financial investment "GOSI"
- Board Member – Industrialization & Energy Services Company
- Board Member – Tabuk Agriculture Development Company
- Board Member – National Medical
- Care Company
- Board Member – Herfy Food Services
- Board Member – Panda Retail Company
- Managing Director of local stocks – Hassana Investment Company

Qualifications
- Bachelor of Economics – King Saud University
- Master's Degree in Economics from Western Illinois University – USA – 1990

Experience
Working in the field of financial investment for more than 25 years.

Bader Bin Mohammed Al Rajhi

Current positions
- Board Member – Al Rajhi Bank
- Managing Director and Vice Chairman – Mohammed Abdulaziz Al Rajhi & Sons Investment Company (MARS)
- Chairman of Rajhi Steel Industries Co. Ltd. (Rajhi Steel)
- Chairman of the Board – Global Beverage Company
- Chairman of the Board – Al-Jazirah Home Appliance Co. Ltd.
- Chairman of the Board – Falcon Plastic Products Company
- Chairman of the Board – Manafe Investment Company

Previous positions
- Held several leading positions in areas of management, industry and real estate investment. He has served as a member of Boards of Directors of joint-stock companies.

Qualifications
- High School

Experience
Having experience of 30 years, Mr Bader has held several leading positions in areas of management, industry and real estate investment and served as a member of Boards of Directors of many joint-stock companies.

Khaled bin Abdulrahman Al Qwaiz

Committees membership
Nominations and Compensations Committee, Board Risk Management Committee (BRMC)

Current positions
- Board Member – Member of Nominations and Compensations Committee – Chairman of BRMC – Al Rajhi Bank
- Chairman of the Board, Chairman of the Executive Committee and member of Nomination Committee – Riyadh Cables Group Company
- Board Member – EMCOR Facilities Services
- Board Member – National Cooperative Insurance Company
- Board Member – Tasnee Company
- Board Member – Bawan Company
- Board Member – Synergy Consultants

Previous positions
- Managing Director – ACWA Holding Company
- Manager of Financial and Administrative Affairs Sector – National Cooperative Insurance Company
- Board Member – Unique Solutions for Chemical Industries (USIC)
- Board Member, Audit Committee Member and Chairman of the Nominations and Compensations Committee – Swicorp Company
- Board Member and Chairman of Nominations and Compensations Committee – Saudi Tabreed Company

Qualifications
- Bachelor of Urban Planning – University of Washington – USA

Experience
Having more than 30 years of experience in the banking, financial, and industrial field, during which he held many leading positions in many local banks, in the field of retail, wholesale, risk and insurance.

Ibrahim bin Fahad Al Ghofaily

Committees membership
Governance Committee

Current positions
- Board Member and Member of Governance Committee – Al Rajhi Bank
- Board Member – Jiwar Real Estate Management, Marketing and Development Company
- Head of Arriyada Financial Consulting Center

Previous positions
- Board Member – Alinma Bank
- Deputy General Manager of Banking and Development – Al Rajhi Bank
- Associate Professor and Vice Dean of Faculty of Economics and Management, King Abdulaziz University
- Financial Consultant of King Abdulaziz Endowment for the two Holy Grand Mosques (Abraj Al Bait Complex in Makkah)

Qualifications
- Bachelor of Public Administration – King Abdulaziz University
- Master of Public Administration – California State University – 1978
- PhD in Philosophy – Florida State University – 1981

Experience
Having practised academic work for 10 years and with 10 years of experience in the Islamic Banking Sector, he established Arriyada Financial Consulting Center, in 2002, and performed several studies and Islamic Financing Structuring for projects (the most prominent being Abraj AlBait in Makkah). He participated and presided over various Islamic financing conferences within and beyond the Kingdom's borders.

Ameen bin Fahad Al Shiddi

Committees membership
Audit and Compliance Committee

Current positions
- Board Member and Chairman of Audit and Compliance Committee – Al Rajhi Bank
- Board Member – STC – Kuwait Telecom Company
- Board Member – Deutsche Gulf Finance
- Board Member – Oger Telecom Company
- CFO - Saudi Telecom Company (STC)

Previous positions
- Board Member – Solutions Company
- Board Member – Advanced Sale Limited Company
- Board Member – Arab Submarine Cables Company
- Board Member – Aqalat Company
- Board Member – Viva Bahrain Company

Qualifications
- Bachelor of Accounting, King Saud University
- Master's Degree in Accounting, University of Missouri, USA
- CMA, SOCPA, CPA

Experience
Having more than 25 years of experience in the fields of financial, investment, consulting and supervisory, he has served as a Board Member of many local and international companies in various sectors and has membership in several professional, commercial, and consulting committees.

Hamza bin Othman Khushaim

Committees membership
Executive Committee, Board Risk Management Committee (BRMC)

Current positions
- Board Member – Member of Executive Committee and BRMC – Al Rajhi Bank
- Director of International Investment Department – Hassana Investment Company
- Member of the Saudi Investor Association
- Certified member of the Association of Financial Analysts – USA

Previous positions
- Hedge Fund Portfolio Manager – KAUST Endowment
- Hedge Fund Manager Portfolio – Investment Management – Treasury – Saudi Aramco Co.
- Financial Analyst – Investment Management – Treasury – Saudi Aramco Co.
- Board Member and Member of Remuneration and Compensations Committee – Dallah Healthcare Holding Company

Qualifications
- Bachelor of Finance, Michigan State University
- Master's Degree in Business Administration University of Michigan in Ann Arbor
- CFA

Experience
Having 12 years of experience in investment

Raed bin Abdullah Al Tamimi

Committees membership
Governance Committee, Nominations and Compensations Committee

Current positions
- Board Member – Member of Governance Committee – Member of Nominations and Compensations Committee – Al Rajhi Bank
- Board Member - Cooperative Insurance Company
- Board Member – SAPTCO
- Board Member - GASCO

Previous positions
At Cooperative Insurance Company, since 1996:

- Chief Executive Officer
- Senior Deputy CEO – Technical Affairs
- Deputy CEO – Medical Insurance and Takaful Insurance
- General Manager of Human Resources and Administration Affairs
- Board Member – Waseel Electronic Information Transfer

Qualifications
- Bachelor of Medical Science, University of Wales, UK
- Has many training courses from leading international institutes such as Enseed, IMD, LBS, etc.

Experience
Having over 20 years of management, with his last leading position being CEO of "Tawuniya" (the Largest Insurance Company in MENA area), he currently serves as Board Member and Board Committee Member in many listed and unlisted companies.

Abdullatif bin Ali Al Seif

Committees membership
Audit and Compliance Committee

Current positions
- Board Member – Member of Audit and Compliance Committee – Al Rajhi Bank
- Board Member – Arabian Cement
- CEO – Alra'idah Investment Company
- Board Member – Al Ra'idah Investment Company
- Board Member – Petrochem
- Board Member – Wisayah Investment Company

Previous positions
- Deputy Head and Head of Investment – King Abdullah Foundation
- Director of Portfolio Management – Masik
- Head of Portfolio Management, Investment Management Division – Saudi Aramco Co.
- Portfolio Manager – KAUST Investment Management Company
- Financial Analyst – Saudi Aramco Co.
- Board Member – HSBC Saudi Arabia
- Executive Director – Vision Combined Limited Company

Qualifications
- Bachelor of Business Administration –
- Boston University
- Master's Degree in Business Administration – Boston University
- Master's of Economics – Boston University
- CPA, CFA

Experience
Having more than 16 years of experience in investment, he serves on several Boards and Committees in many companies.

Executive Management

Stefano Paolo Bertamini

Current positions
- Chief Executive Officer

Previous positions
- Chief Executive officer (Standard Chartered Bank)

Qualifications
- Master's Degree – Finance and International Banking Business

Experience
33 years

Waleed Abdullah Almogbel

Current positions
- Deputy Chief Executive Officer

Previous positions
- Chief Operating Officer (ARB)

Qualifications
- PhD – Accounting and Auditing

Experience
22 years

Abdulrahman Abdullah Alfadda

Current positions
- Chief Financial Officer

Previous positions
- General Manager – Treasury and Financial Institutions (ARB)

Qualifications
- Bachelor's Degree – Electrical Engineering

Experience
23 years

Abdulaziz Saad Al Resais

Current positions
- Chief Risk Officer

Previous positions
- AGM – Enterprise Risk Management; Al Rajhi Bank

Qualifications
- MBA

Experience
19 years

Ahmed Saleh Al Sudais

Current positions
- Chief Human Resources Officer

Previous positions
- ACWA Power International, KSA – VP Human Capital

Qualifications
- B Bachelor's Degree in Accounting, King Abdulaziz University

Experience
17 years

Omar Mohammad Almudarra

Current positions
- Chief Governance and Legal Officer

Previous positions
- General Manager – Head of Legal – SAMBA Financial Group

Qualifications
- Master's Degree – Law

Experience
20 years

Abdulaziz M Al-Shushan

Current positions
- Chief Internal Audit

Previous positions
- Executive Director (Head of Internal Audit) ACWA Power

Qualifications
- Executive Master's Degree – Business Administration

Experience
19 years

Saleh Abdullah Allheidan

Current positions
- General Manager – Sharia

Previous positions
- Associate Professor in the High institute of Judiciary – Al Imam Mohammed bin Saud Islamic University

Qualifications
- PhD – in Comparative Fiqh (Islamic Law)

Experience
34 years

Saleh Abdullah Alzumaie

Current positions
- General Manager – Retail Banking Group

Previous positions
- GM RBG (Acting) (ARB)

Qualifications
- Bachelor's Degree – English Language

Experience
29 years

Majed Abdulrahman Alqwaiz

Current positions
- General Manager – Corporate Banking Group

Previous positions
- GM CBS (SABB)

Qualifications
- Bachelor's Degree – Finance Accounting

Experience
25 years

Abdullah Sulaiman Alnami

Current positions
- Chief Compliance Officer

Previous positions
- Deputy CORO (Riyad Bank)

Qualifications
- Master's Degree – Management and Business

Experience
25 years

Market Overview and Saudi Vision 2030

Despite continued market turbulence in the Kingdom during 2019 – caused by a combination of oil price volatility, changing national demographics leading to continued deflation, and various geopolitical tensions in the surrounding region – significant steps have been taken toward the realization of the goals of Saudi Vision 2030.

'Vision 2030' goal is to increase home ownership for Saudi citizens from

47% in 2018 to

70% by 2030

Raising USD 25.6 billion, Saudi Aramco's successful public listing in 2019 represented the biggest IPO in history and confirmed the company's unrivalled position in the global oil and gas sector, whilst expansion and improvement was seen across the non-oil sectors of the Kingdom's economy, spurred by strategic government spending.

The Saudi banking sector continues to evolve to reflect these changing market conditions, and to meet the demands of both the Kingdom's ambitious development path and its new generation of citizens. Increasingly, the sector is being led by the demands of millennials, whose custom banks are competing to secure as the new generation of young, wealthy, tech-savvy Saudis begin to explore their options in a fairly busy marketplace.

The demand for the latest banking technologies in the Kingdom is growing in parallel with this increase in millennial customers, as is national investment in digitization and cybersecurity more generally. Therefore, banks are seeking to develop and emphasize their digital leadership, cybersecurity and data privacy credentials in order to remain in step with the Kingdom's Vision and attract new business.

Given that the Kingdom has one of the lowest 'digital first' scores in the world – referring to the proportion of customers whose first preference is to bank digitally and who use online or mobile banking more than 50% of the time – there is extremely high growth potential for banks in this area, and consequently significant market share on offer to those who are able to capitalize on this opportunity.

A trend of consolidation in the nation's banking system has emerged, with the potential for new mergers in the coming years – particularly in the Islamic banking sphere – driven by the huge opportunities and intensity of competition in the sector. Also reflecting the ideals of Saudi Vision 2030, government programs to encourage Saudis to invest in purchasing their own homes has led to rising demand for mortgages – the national goal being to increase home ownership for Saudi citizens from 47% in 2018 to 70% by 2030.

This has played a key role in the banking sector in 2019, driving growth that may have previously been generated by other aspects of the banking business, and has seen major retail banks such as Al Rajhi Bank cooperating very closely with the Ministry of Housing and the real estate sector.

Another growth area for the banking sector inspired by the national development vision is structured finance, thanks to the increase in infrastructure for mega-projects being awarded and launched during the course of 2019. Some of these developments target the highly anticipated evolution of the Kingdom's tourism and hospitality sector, born of Saudi Arabian's new openness to the world. They also target the significant new potential for the expansion of the nation's entertainment sector, given the target to become a top 4 entertainment destination in Asia and join the top 10 in the world.

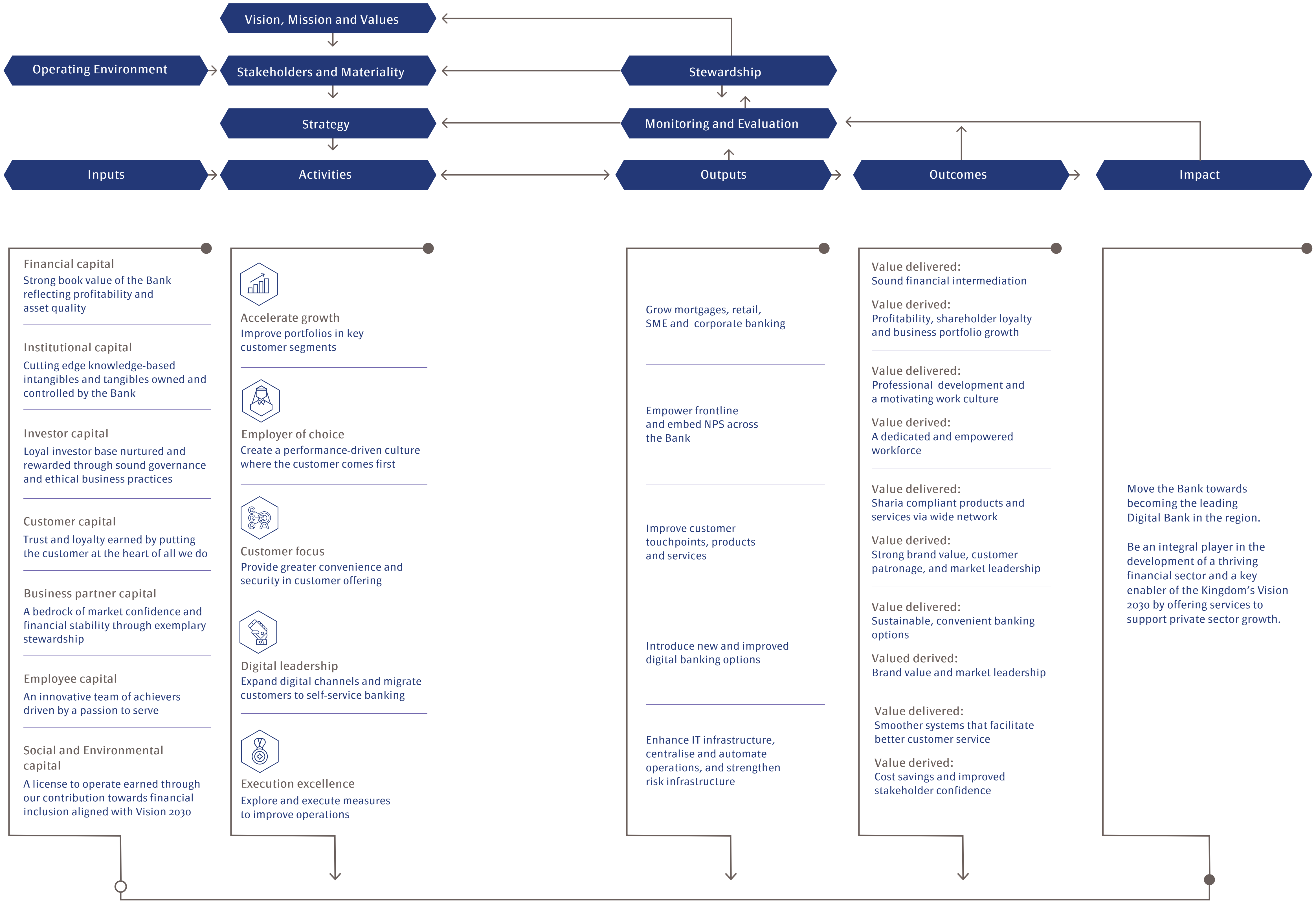
As this broad socio-economic development gathers pace and the Kingdom's banking sector evolves, and while the government continues to advance its various programs to achieve its broad development ambitions, Al Rajhi Bank will remain fully committed to supporting Saudi Vision 2030 by focusing on the three main objectives of its Financial Sector Program: creating an advanced capital market, supporting private sector growth, and promoting and enabling financial planning for our customers.

Business Model

Al Raji Bank's business model is focused on the creation of value for all its stakeholders. As illustrated in the figure below, a range of inputs (on-balance sheet and off-balance sheet forms of capital) are enhanced through the Bank's activities, with the Bank's vision, mission, values, and strategy defining its overall purpose and direction.

The Bank's value-enhancing activities in turn generate outputs, which consist of the value created both for the Bank and its stakeholders in the short term. These outputs come together into broader outcomes, representing the value created in the medium term, and eventually into overall impact, which is the long-term value created for all the Bank's stakeholders.

All of these elements are underpinned by strong governance, compliance as described on pages 62 to 65. In terms of risk management practices, as described in the Risk Management section of this report on pages 34 to 35.



Strategy Overview

Launched in 2015, Al Rajhi Bank's five-year corporate strategy aims to build new capabilities and ensure sustainable growth amidst a rapidly changing environment, while leveraging KSA's Vision 2030 objectives of creating a thriving financial sector.

In order to navigate a rapidly evolving business environment and transforming sector, Al Rajhi Bank's strategy has a relentless focus on business enabling and cost-efficient technological enhancements, as well as on the sustainability of the Bank's operations, in order to emerge as "The Bank of the Future".

The "ABCDE – Back to Basics" strategy, which is designed to expand the Bank's product and customer portfolio, diversify sources of funding, expand delivery channels, enhance customer and employee engagement, migrate customers to online channels and streamline internal processes, is composed of five key pillars, as presented along with their respective key objectives in the following table.

A – Accelerate growth
- Grow mortgage, private sector, affluent, ladies and Tahweel
- Enhance SME and corporate capabilities
- Enhance International presence
- Improve yields

Exceed industry

B – Become employer of choice
- Engaged workforce
- Expand development and training programmes
- Strengthen diversity
- Enhance employee value proposition

Higher engagement

C – Customer focus
- Update value propositions
- Empower frontline
- Align organisation to customer advocacy
- Install and embed NPS across the Bank

Most recommended

D – Digital leadership
- Smartly expand channels and formats
- Digitise customer journeys
- Migrate customers to self-service channels
- Innovate in payments

Best in class

E – Execution excellence
- World-class compliance
- Enhance IT infrastructure
- Centralise and automate operations
- Strengthen risk infrastructure

Deliver

Risk Management

Operating in a highly competitive and dynamic environment, the Bank focused on managing a range of risks during the year under review.

Credit Risk

The most common risk for the Bank and the Group is financial loss due to a counterparty failing to meet the terms of an obligation to a transaction. Key sources of Credit Risk include credit facilities provided to customers, cash and deposits held with other banks, and some off balance sheet financial instruments such as guarantees relating to purchase and sale of foreign currencies or letters of credit. Using quantitative and qualitative aspects, we systematically evaluate a customer's creditworthiness. This helps us to maintain a robust loan portfolio. The Bank is also able to take remedial measures by conducting periodic loan reviews that are geared to detect any weaknesses in the quality of the portfolio.

Liquidity Risk

When the Bank is unable to meet its financial liabilities when they fall due or replace withdrawn funds without incurring unacceptable losses, this is termed liquidity Risk. Such a risk would invariably strike a serious blow to the Bank's reputation and its ability to do business going forward. Since the ability to accurately forecast cash flows and cash equivalents is crucial to the Bank's ability to manage such a risk, they are carried out based on practice and limits set by the Group and historical deposit movement.

The Bank's liquidity is also affected by market disruptions and credit downgrades. For this reason, assets are managed judiciously with a conservative balance of cash, cash equivalents and other assets maintained at all times. To further mitigate this risk the Bank focuses on diversifying its sources of funding. As a proactive management to address any future liquidity risk that may arise, the Bank conducts its Internal Liquidity Adequacy Assessment Plan (ILAAP) exercise to estimate the available funding under stress situation and on forecasted basis.

Market Risk

Risks related to currency, profit rate and price are classed as Market Risk. They occur when the fair value or future cash flows of a financial instrument fluctuate due to changes in market prices. Profit rate products, foreign currency, and mutual fund products are all exposed to general and specific market movements. As a result, changes in the level of volatility of market rates or prices such as profit rates, foreign exchange rates, and quoted market prices, can impact the performance of the Bank.

Being Sharia compliant means that risks resulting from speculative operations such as hedging, options, forward contracts, and derivatives are mitigated. The Group is not immune to market risks such as Profit Rate Risk, Foreign Currency Risk, Price Risk and Operational Risk.

Operational Risk

Operational Risk scenarios are more or less idiosyncratic in nature and generally attributed to inadequate or failed internal systems and processes, human actions and/or external events.

During the year under review, the aggregated results of such stresses indicated manageable levels of risk. This demonstrates the Bank's overall resilience and the success of its integrated approach to the identification, measurement and monitoring of Operational Risk.

Concentration risk

If the Bank's area of business were limited to one location or its customers to a single type, it would be at greater risk from the slightest shocks to its operating environment. Instead, the Bank is geographically diversified and counts on the loyalty and patronage of a varied customer base, which spans industries, countries, and wallet-size. Such diversity mitigates concentration risk by providing greater stability in the face of external impacts.

Risk management practices

The role of the Board Risk Management Committee (BRMC) is to support the Board of Directors in their role of overseeing the Bank's performance in line with the Bank's risk appetite. The risk management function operates within the regulatory framework set out by the Saudi Arabian Monetary Authority (SAMA).

The Bank's Internal Capital Adequacy Assessment Process (ICAAP) covers the Bank's risk management framework, detailing its risk appetite, risk management approach, and primary risk controls. Reviewed by the BRMC and approved by the Board, the ICAAP is submitted to SAMA on an annual basis. Similarly, the BRMC reviews and provides recommendations on the Internal Liquidity Adequacy Assessment Plan (ILAAP).

> The aggregated results during 2019 of such stresses indicated manageable level of risk

The Bank must manage risks with prudence combined with pragmatism in order to remain profitable. To do so it has to accurately identify potential risks and the impact of such risks on the Bank's value creation process. This involves establishing risk thresholds, which are derived from the Bank's risk appetite. The policies and procedures set up by the Bank help identify and analyse relevant risks, manage its capital effectively and provide shareholders with sustainable returns.

Crucial to the Bank's management of risk across its operations is the role of the Credit and Risk Group headed by the Chief Risk Officer. Covering Credit Risk Management, Operational Risk Management and Enterprise Risk Management, this team works within the risk frameworks and policies approved by the Board of Directors. The Group's reports to the Board of Directors and related committees span credit risks and portfolio asset quality, operational risks, liquidity risks, market risks, reputational risks, and technology and cyber security risks among others.

The BRMC also reviews the Credit and Provisioning Policy, Operational Risk Policies, Risk Appetite Statements, Market and Liquidity Risk Policies and Information Security Policy. Its recommendations are submitted for the Board's approval.

The Bank's Liquidity Risk is monitored by the Asset and Liability Committee (ALCO). Their remit includes day-to-day management of funds to ensure that funds are available when necessary to meet commitments; monitoring liquidity ratios against benchmarks and managing the concentration and profile of debt maturities.

Market risks are regularly monitored by Credit and Risk Group with reports being sent to ALCO each month for assessment. ALCO ensures that risks taken are appropriate but initiates mitigating action if they are not within the Bank's risk appetite.

The diversity of the customer base fortifies and strengthens the Bank. Having a keen understanding of different customer requirements, we segmented this stakeholder group into three primary segments:

- Retail Banking
- Micro, Small and Medium Enterprises (MSME)
- Corporate Banking

This type of segmentation also allows us to align our value proposition in terms of products, services, and delivery channels to better cater to customer needs. Our retail customer-oriented business model provides a diverse risk profile that is supplemented by our robust corporate banking customer base. Our extensive branch network endears us to our loyal customer base, generating for us a high level of stable demand deposits, which in turn has a positive impact on the Bank's liquidity.

Supporting our long-term value creation plans, our risk management practices regulate the entire customer journey from on boarding to issuing finances and providing reliable and relevant products and services.

In line with global standards, the Bank implemented credit provisioning framework IFRS 9 and Internal Liquidity Adequacy Assessment Plan (ILAAP) successfully. It also established Risk Appetite Statements at business line level, foreign branch level and subsidiary level. In 2020, the Bank will continue its Risk Strategies to maintain a strong Capital base and sound Funding & Liquidity position and further improving the robustness of its information security infrastructure.

Credit rating

Rating agency	Long term	Short term
S&P	BBB+	A-2
Fitch	A-	F1
Moody's	A1	P-1
Capital Intelligence	A+	A1

Receiving positive credit ratings from international rating agencies over consecutive years has been favourable for the Bank's reputation. The year under review presents no change in the ratings despite of the challenging economic & geopolitical environment.

Looking Ahead

Expanding its core customer segments of retail, corporate, and SME in line with world-class risk management practices, regulatory standards, international standards, and best practices continues to be a core focus for the Bank.

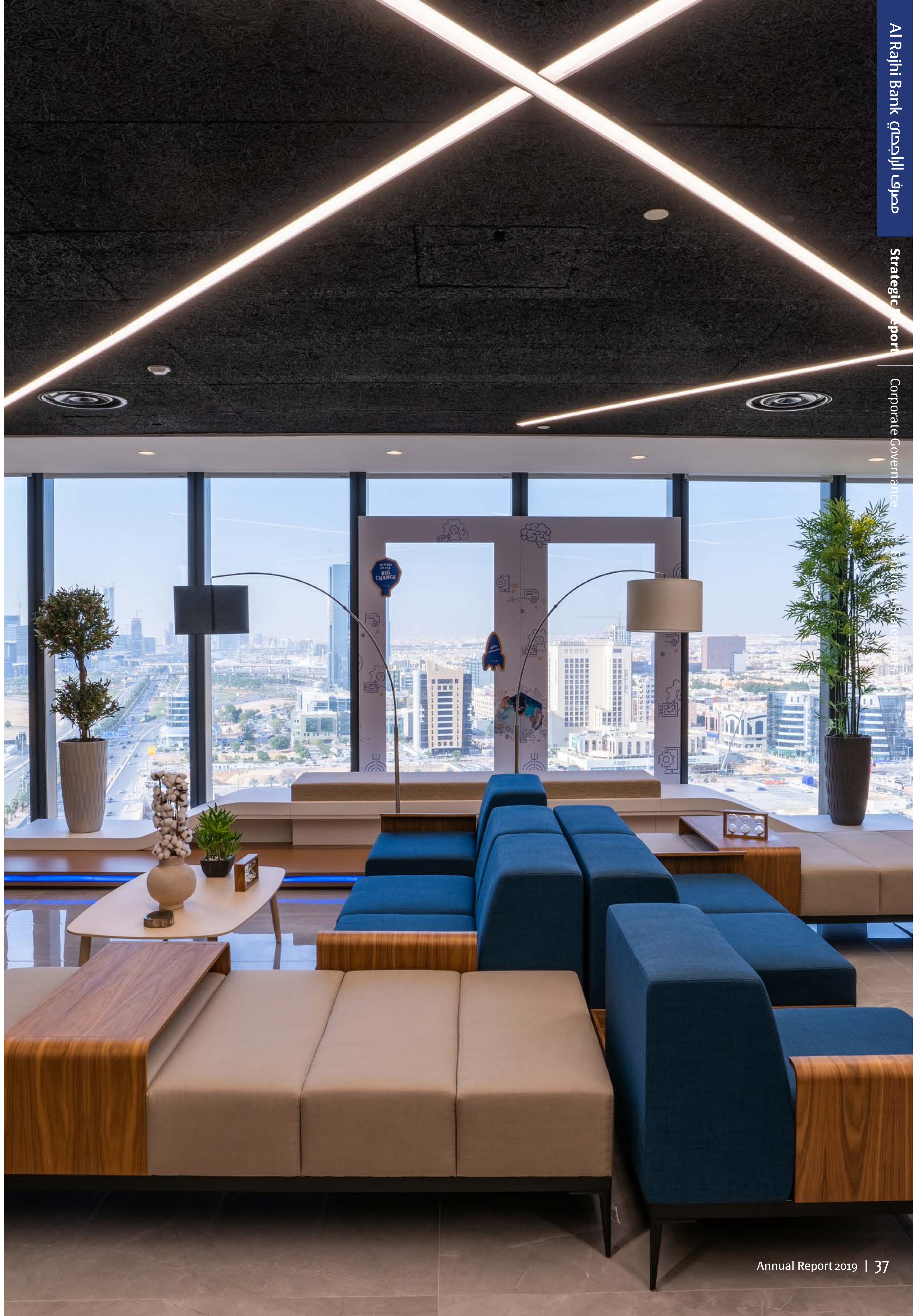
Business Review

Across Al Rajhi Bank's constituent groups – from Corporate Banking, Retail and Treasury to International Business and Sharia – 2019 has seen significant enhancements to both our products and services that allow us to serve our customers and clients in more versatile ways and with greater efficiency than ever before.

Complemented by the improvements achieved by Al Rajhi Capital and our SME Business, Al Rajhi Bank has reasserted its leading position as the world's largest Islamic bank by capital and the proud custodian of the largest banking customer base in the Kingdom.

As we continue our transformative journey, we remain singularly dedicated to improving the lives of our customers through innovation and technological renewal, consistently bringing improvements to our existing products and services whilst expanding our offering to clients and customers across our various business segments.

- Retail banking
- Corporate banking
- Treasury
- International business
- SMEs



Business Review (continued)

Retail Banking Group

Al Rajhi Bank serves over nine million retail customers throughout the Middle East and continues to lead the sector in terms of its branch and ATM networks and remittance centers across the Kingdom. This unrivalled network provides the Bank's customers with access to the entire range of financial products and services from the Kingdom's leader in current accounts, personal loans, auto loans and mortgages.

Mortgage portfolio growth to

SAR 55 billion

in 2019 from

SAR 32 billion

in December 2018

Mortgage loans provided to retail clients by the Bank in Saudi Arabia more than tripled year-on-year in 2019; and portfolio growth to 55 billion in 2019 from billion in December 2018.

The Bank's share of the market reached 33% in 2019, while total portfolio share of the market increased over the same period to reach 26%.

A Year of Strong Financial Performance

Retail Banking net income increased 11.1% year-on-year to reach SAR 6.42 billion, reflecting strong operating income performance; total operating income grew by 16.9% over the same period, mainly as a result of an improved product mix in the financing portfolio, whilst assets and liabilities grew by 11.7% and 6.0%, respectively, during 2019.

Meanwhile, net financing and investment income for the year rose by 16.5% to SAR 12.32 billion, whilst fee, exchange and other income jumped to SAR 1.26 billion, representing a 20.5% increase for the year.

New Products for a Developing Market in 2019

During 2019 the Retail Banking Group launched an Off-Plan Finance program in alliance with National Housing Company, the Ministry of Housing and the Real Estate Development Fund (REDF) to capitalize on the improving demand–supply gap being encouraged by cooperation between these partners and the Kingdom's banks and mortgage Financing institutions.

Other new products launched during the year to capitalize on changing dynamics and under-served customer segments include step-up and step-down instalment features for self-construction and off-plan finance products; co-borrower/joint loans for real estate products; Murabha products to complement our existing Ijara products; and new segment for 'about-to-retire' clients, as well as those with non-approved employers, and retired and self-employed REDF customers covered under the Mortgage Guarantee Scheme (MGS). Also, for retired customers, Step-Up was launched to provide customers with existing loan liabilities a more flexible mortgage payment plan, while the maximum age limit at loan maturity for all real estate products was raised to 70 Years. Loan maturity tenor was also increased to 35 years for off-plan/Al Modoum products, and Mortgage Guarantee Scheme (MGS) coverage was extended to Self-Construction Murabha and Off-Plan products.

The Group's Private and Affluent Retail section continued to cater to the needs and aspirations of the Bank's Private customers, with the opening of a new Private Center in Riyadh (East Ring Road, bringing the total in the city to two), and the continued operation of Centers in Jeddah, Dammam, and Makah and at its dedicated Ladies Private Centre in Riyadh. We also improved a number of Affluent lounges, introducing contemporary design to meet the expectations of our valued customers and ensure the comfort and convenience of their experiences. The Bank's Affluent lounges now number 300 and span the entire Kingdom. For the second year running, we also increased the number of relationship managers at our 60 dedicated Affluent Ladies Sections.

In line with the bank's strategy to become the leader in the digital banking by offering contemporary digital banking products and services to its customers, the Card Business of the Bank was among the first wave of providers to launch Apple Pay and mada Pay Services in the beginning of 2019, allowing our customers to pay in seconds using their Al Rajhi cards through their mobile and smart devices.

Also in 2019, the bank piloted its much-anticipated Multi-Currencies (Omlah) Prepaid Card, which offers nine currency wallets for customers to load their travel budgets through the Bank's digital channels. The mass launch is planned for the first quarter of 2020, in anticipation of the upcoming summer travel season.

In recognition of these and its other extensive achievements during 2019, Al Rajhi Bank's Retail Banking Group received the Best Real Estate Finance Award by the Ministry of Housing.

Retail banking services in 2020 .. New products and more advances services

There will be more of improvements on retail new products and financial services in 2020, this will include launching of new digital channel to provide faster and easier customer experience. Also, a new full system will be integrated that will assist the Real Estate financing for the purpose of improving and enhancing the speed and efficiency of the procedures that will result in increasing the growth pace for this essential sector.

As the aim to fulfil customer needs with no exception, including those who have accounts not associated with their salaries or fixed income, the Bank continue on reviewing recommendations on providing financing options that are applicable with customers needs such as direct debit facilities. At the same time, the Bank support Group direct sales team through a united structure that ensures the completion of all direct sales supervised by the Head of Real Estate Finance Operations.

Corporate Banking Group

Our Corporate Banking group delivered yet another year of robust performance in 2019, achieving notable improvements over 2018 results in a number of pertinent metrics and achieving key milestones in our ongoing core banking transformation.

9.3%

increase in total Corporate Banking Group operating income over 2018

Over the course of the year, the group significantly expanded its product and service offering, allowing for greater breadth and depth in our client relationships and substantially reinforcing our market position. We also further strengthened our control functions and implemented more stringent governance standards to enhance our existing compliance culture.

We continued our efforts to benefit and enhance our human capital through the implementation of various functional and leadership programs, complementing further investment in technology, systems and process during the year to drive improvements in terms of efficiency and service standards.

Sustained Growth and Performance in 2019

Strong top-line performance combined with improved operating efficiency and lower impairment charges in 2019 saw the Corporate Banking group achieve a cumulative 28.0% year-on-year growth in net income to reach SAR 2.15 billion.

Total Corporate Banking group operating income increased by 9.3% over 2018 to SAR 2.53 billion, financing income grew by 6.8%, and fees and other income by 22.6% year-on-year, while impairment charges dropped by 79.7%.

Unrivalled Options for Corporate Customers

In order to further improve our client value proposition, the past year has seen a significant expansion in the service offering of the Corporate Banking group, with the launch of a range of new products and services designed to enhance utility, efficiency and client experience.

These include products for corporate clients such as our new Virtual Accounts – providing a reliable mechanism for collecting payments whilst also aiding in reconciliation and monitoring – and Business-to-Business banking, which establishes a direct connection between clients and the Bank in order to provide highly secure information access for the purpose of transaction and payment processing, and other services such as straight-thru processing (STP). In addition, our Corporate Liquidity Management solutions provide centralized and automated cash management for clients to optimize cash flows.

We also added SWIFT for our corporate clients, as part of our ongoing digitization efforts, providing an integrated solution for trade finance, and enhanced our eCorp and eTrade offering by undertaking a number of improvements whilst incorporating value added services. Other efforts to improve the client experience included extended working hours in our dedicated corporate service centers for the first time for Corporate Banking during the Ramadan and Eid Holidays.

2019 saw the establishment of a dedicated Real Estate Structured Finance team to expand the Bank's Real Estate offering under a new focus on Ministry of Housing developer financing, with a view to diversify our portfolio and capitalize on extensive current and potential opportunities. Also launched in 2019, our new Escrow Accounts for real estate developers are specifically tailored for the collection of off-plan sales in adherence with the WAFI Program requirements stipulated by the Ministry of Housing. In addition, we now offer a complementary, cutting-edge dashboard and reporting tool as a value-added service to aid both developers and the Ministry to monitor sales.

Other improvements were implemented in service standard measurements; transaction banking – resulting in improved revenue mix and enhanced current account floats; credit process automation; and structured finance, with the addition of key talent to increase our exposure to quality Green Field projects.

We also structured a hybrid receivable securitization transaction for a leading electronics and home appliance retailer – the first of its kind in the Kingdom – and for the first time began offering FX flexible hedging solutions to our corporate clients in partnership with Treasury group.

The Corporate Banking group conducted annual business events across key regions to outline our product and service offerings as part of our cross-sell initiatives in 2019. These included hosted Trade Workshops across major regions to engage with our clients to create awareness of our trade offerings.

A Market Leader in the Kingdom

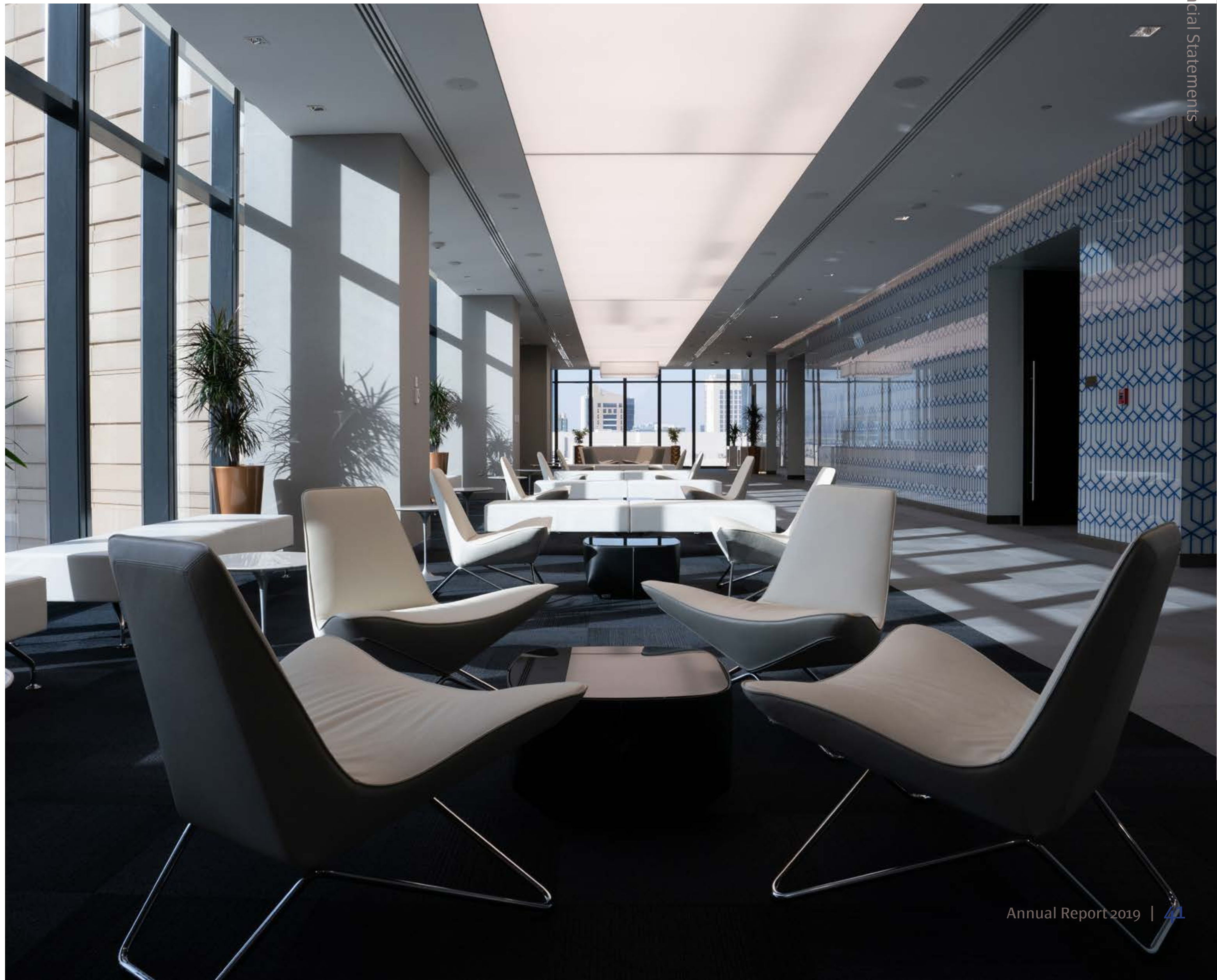
The awards and accolades received by the group during the year testify to our ongoing efforts to improve the efficiency of our services and the breadth of our offering to clients. In a first for Al Rajhi Bank, we were recognized both as the "Market Leader in Saudi Arabia" in the area of Cash Management, and for providing the "Best Service in Saudi Arabia" at the Euromoney Awards for Excellence.

Corporate Banking Fit for 2020

Within the sphere of our overarching aim to improve customer experience and serve our clients better, the initiatives undertaken in 2019 have resulted in a noticeable improvement in our relative position in the market, laying a strong foundation for growth in the coming year.

EUROMONEY
CASH MANAGEMENT
2019

As part of our 2020 plans, we will launch a variety of complementary initiatives to further enhance this growing and diverse client offering, as well as to improve our service standards as part of our core strategy to establish Al Rajhi Bank as the Bank of choice for corporate clients in the Kingdom.



SME Business

Following a difficult year for our SME business in 2018, owing both to challenging market conditions and the merger of our SME business with Retail Banking, we have achieved encouraging organic growth during 2019, expanding our client base within these selective industries by extending our product range to gain increasing market share.

SAR 2.6 billion
outstanding finance to SMEs

SAR 338 million
increase in SME business profits

Now with a renewed focus on widening our share of the SME market, particularly in the healthcare, education, tourism, services, transportation and communication sectors, we have captured more business throughout the year, while also improving credit quality through active portfolio management and implementing efficient clean-up processes to improve non-performing loan (NPL) dynamics.

Powering the Nation's Small Businesses in 2019

In line of the Kingdom's 2030 vision and realizing the importance role of SMEs in driving growth we reached SAR 2.6 billion in financing for SMEs whilst also successfully increasing SME profitability and delivering better quality assets to achieve a bottom line of SAR 338 million, which represents a significant increase of SAR -2.2 million, in comparison with 2018.

SME continued to enhance the sale of structured products especially POS Financing. This coupled with low non –performing loans (NPLs) helped in boost the overall profitability of SME.

Creating A One-stop-shop for SMEs

The key achievements of the SME business during 2019 include the enhancement of our 'one-stop-shop' concept through the development of comprehensive credit programs for different business segments. This has been supported by a greater focus on structured facilities, and the launch of POS financing, fleet financing and e-SME (online) services to complement our offering.

Delivering on the Saudi Vision in 2020

In 2020 our SME business aims to mirror broader national SME growth and reflect the progressive objectives of Saudi Vision 2030 by continuing to widen its share of the SME market by maintaining its selective industry focus. We will intend to concentrate more on structured facilities, digital products and cash management services for SMEs in order to more effectively fulfill their business needs, whilst also launching specific and targeted lending products.

Greater emphasis will also be given to process automation and channels in the coming year to enhance the customer experience and ensure the provision of seamless banking services. This will include the introduction of a new digital platform through which customers will be able to interact with and fulfill their banking needs as the nation continues its transition toward the cashless society foreseen by the Saudi Vision 2030.

Treasury Group

As the market outlook continues to evolve in the Kingdom, optimizing the Bank's treasury portfolio through product and geographical diversification will be the focus in 2020. With the upcoming launch of a new treasury management system, the Bank will be well positioned to support clients, particularly as more investors incorporate environmental, social and governance (ESG) criteria to screen investments.

The core objectives of our investments and money market activities have remained to improve the net yield of our portfolio through optimization and the introduction of higher yielding assets, whilst also achieving and maintaining the right customer and interbank deposit mix. We have also sought to retain and enhance our leading position in the foreign exchange remittance business; strengthen cross-selling with the corporate, retail and SME segments; expand our correspondent network for all major currencies; and diversify our international portfolio to include new markets.

Sustained Profit Growth in 2019

The Treasury Group achieved significant growth in 2019, driven by product diversification and portfolio optimization. Net income rose 6.7% year-on-year, on the back of a 1.9% growth in total operating income.

Total Treasury assets grew by 0.8%, in line with the bank's overall asset expansion, leading to net financing and investment income growth of 2.3% over the same period, whilst total liabilities fell 38.9% from SAR 13.71 billion to SAR 8.37 billion during the year.

Our financial institutions (FI) assets book increased to SAR 3 billion in 2019, representing its highest total value to date.

Tahweel, the Bank's remittances arm, achieved a market share of 30.6% in 2019, despite declining volumes. This growth is a direct result of our efforts to deliver an enhanced customer experience, which have led to a net promoter score of 47%, a complaints rate of only 1.8%, maximum waiting times of 20 minutes, and accelerated digitization at 58%.

Steadfast in the Face of 2020 Challenges

Rising political risk continues to represent our most significant challenge, with investors expressing concern about factors such as US–China trade dynamics and Brexit, while political uncertainty in the Middle East region will remain a key hurdle in terms of market perception. We expect growth to remain muted as the world adjusts to the consequent political realities.

Based on the market outlook for 2020, we will continue to optimize our customer and interbank deposit mix; improve portfolio net yield by adding higher yielding assets and supporting the Bank's diversification strategy; and offset profitability declines through better spreads.

In our FX activities, we aim to meet challenging new technologies as we further entrench our dominant market position, whilst also introducing new products to Corporate Banking Group, SME Banking and Private Banking to provide profit rate hedging and optimization. Meanwhile, through Tahweel, we will continue to protect our leading position despite a declining remittance market by adopting disruptive models to further enhance the customer experience and optimize network costs.

The Treasury Group will also continue to diversity our FI book by moving into new regions, whilst also maintaining a portfolio of quality, tier-1 institutions. We will also expand our correspondent network, leverage the Bank's international relationship and focus on de-risking our banking relationships. Finally, we anticipate further growth in FI fees as a consequence of trade deals and in relation to growth in the Hajj business, in line with the Hajj and Umrah Vision Realization Program.

6.7%
net profit growth

Subsidiaries and International Branches

Al Rajhi Capital

Al Rajhi Capital is a Saudi Closed Joint Stock Company authorised by the Capital Market Authority to carry on securities business in the activities of Dealing/brokerage, Managing assets, Advising, Arranging and Custody.The Company made excellent progress in implementing its five-year strategy and growth vision for 2020. Key strategic developments in 2019 included an increase in stable, recurring revenue sources; an expansion of Al Rajhi Capital's institutional client base; and a number of major digital transformation initiatives including a complete upgrade of existing online platforms and the introduction of new e-services and delivery channels.

Notably, Al Rajhi Capital was appointed as Joint Bookrunner and Underwriter for Saudi Aramco's listing on the Saudi stock exchange, Tadawul, representing the biggest IPO in the world to date and making Saudi Aramco the world's largest listed company, with a valuation of over US$ 1.7 trillion.

The Company also received extensive recognition during 2019, having been named Saudi Arabia Broker of the Year 2019, Sharia Fund Manager of the Year 2019 and Research Provider of the Year 2019 at the Global Investor Group MENA Awards 2019.

Strong performance and an expanding product mix in 2019

Al Rajhi Capital maintained its position as the leading broker on Tadawul – with a market share of 12.5% – and on the Nomu Parallel Market, with a market share of 19.8%.

The Company's local and regional mutual funds, which have been consistently ranked in the top quartile relative to their peers, continued to perform strongly during 2019. As a result, total assets under management (AUM), including the listed Al Rajhi REIT, grew by 27% year-on-year to SAR 46 billion compared to a growth rate of 12% during the period from the beginning until the end of 2019.

Two new funds were launched during the year. The Al Rajhi MSCI Multi-Factor Index Fund, which is the first passive fund of its kind in the Kingdom, is designed to meet growing investor demand for a low-cost and efficient way of accessing the Saudi equity market with a long-term perspective. Meanwhile, the Al Rajhi Diversified Income Fund was offered to selected investors on a private placement basis; this fully flexible income-generating multi-asset fund aims to provide an attractive long-term risk-adjusted return with moderate volatility.

The Al Rajhi Real Estate Investment Traded Fund (Al Rajhi REIT), which is listed on Tadawul, enjoyed a successful and active first year of operation, providing investors with an annualized yield of 6.3%. The total asset value of the Fund was increased from SAR 1.7 billion to SAR 2.4 billion through the acquisition of new real estate assets. These comprise new assets on Education and healthcare sectors, bringing the total number of assets under management by the Fund to 18 at the end of 2019.

Following the inclusion of Tadawul in the MSCI and FTSE emerging markets indices, the Research team worked closely with the new Institutional Sales Desk in helping to attract new clients, including qualified foreign investors. A road show, which hosted 10 companies from Saudi Arabia, was conducted in New York with the Company's US partner.

Also during 2019, Al Rajhi Capital continued to make significant progress in implementing its Digital Transformation Plan, including the launch of the Company's new website, which features a sophisticated design based on SiteCore content management and digital marketing technology, providing an enhanced user experience.

Other key digital developments include the launch of an end-to-end automated Murabaha financing solution and major enhancements to the eTadawul online brokerage trading platform such as biometric authentication. Also, new risk profiling and goal-based investment tools were added to Al Rajhi's ARC Invest asset management portal.

Al Rajhi Development Company

A limited liability company registered in the Kingdom of Saudi Arabia to support the mortgage programs of the Bank through transferring and holding the title deeds of real estate properties under its name on behalf of the Bank, collection of revenue of certain properties sold by the Bank , provide real estate and engineering consulting services, provide documentation service to register the real estate properties and overseeing the evaluation of real estate properties.

Al Rajhi Takaful Agency Company

A limited liability company registered in the Kingdom of Saudi Arabia to act as an agent for insurance brokerage activities per the agency agreement with Al Rajhi Cooperative Insurance Company.

Al Rajhi Company for management services

A limited liability company registered in the Kingdom of Saudi Arabia to provide recruitment services.

Emkan Finance Company

A Closed joint stock company registered in the Kingdom of Saudi Arabia providing micro consumer financing, finance lease and small and medium business financing. As of 31 December, the company is under licensing process with Saudi Arabian Monetary Authority (SAMA).

Al Rajhi Bank – Malaysia

An Islamic bank has been granted full banking license to operate as the first foreigner bank in Malaysia under the Islamic Financial Services Act 2013, established and operates in Malaysia. Malaysia is the first step in the direction towards entering the banking market in Southeast Asia, as the essential banking products were entered to the Asian market and provided a new complete experience from Islamic Banking.

Name of Subsidiary	Capital	Ownership of the Company %	Country of Operations	Country of Establishment
Al Rajhi Limited Company - Malaysia	1,051,714,300	100	Malaysia	Malaysia
Al Rajhi Capital	500,000,000	100	KSA	KSA
Al Rajhi Takaful Agency Company	2,000,000	99	KSA	KSA
Al Rajhi Development Company	1,000,000	100	KSA	KSA
Al Rajhi Company for management services	500,000	100	KSA	KSA
Emkan Finance Company	160,000,000	100	KSA	KSA

Al Rajhi Bank – Kuwait

Foreign registered branch at the Central Bank of Kuwait.

Al Rajhi Bank – Jordan

Foreign branch operating in the Hashemite Kingdom of Jordan and provides all financial, banking, investment services, import and trade of precious metals and stones in accordance with the provisions of Islamic Sharia and in accordance with the applicable banking law.

Name of International Branch	Capital	Ownership of the Company %	Country of Operations	Country of Establishment
Al Rajhi Bank - Kuwait	389,888,426	100	Kuwait	Kuwait
Al Rajhi Bank - Jordan	264,842,950	100	Jordan	Jordan

Reinforcing our International Presence in 2019

In Kuwait Al Rajhi Bank generated SAR 75,601 thousand revenue in 2019. Having concluded the year with expenses of SAR 57,696 thousand, annual net profit for the Bank's Kuwait operations was SAR 101,679 thousand. High-level priorities in Kuwait included the ongoing expansion of our network to enhance client reachability, whilst also improving and broadening our core banking system in the Kuwait and establishing the foundations of a leading digital banking platform for our customers.

In Jordan, the Bank's operations produced SAR 133,039 thousand in revenue, equating to a net profit of SAR 34,879 thousand with SAR 74,411 thousand in expenses. The contribution of home financing to our overall retail portfolio increased during 2019, as did the contribution of mid-corporate and SME business to the Bank's corporate portfolio. The Bank also booked additional facilities for the Government of Jordan with a value of JOD 27 million.

The Bank's activities in Malaysia generated SAR 195,085 thousand in revenue, with expenses of SAR 170,860 thousand to achieve a net profit of SAR 23,888 thousand. Moderate asset growth was seen across the business, reflecting the current economic uncertainty, while the Bank maintained positive jaws owing to better operating revenue, and successfully leveraged our digital platform to grow our current a savings accounts (CASA) and generate a positive fee trajectory.

Expansion and Enhancements to our International Network in 2020

Major strategic targets for Al Rajhi Bank's Kuwait operations include growing our customer current account and deposit base to reduce our dependency on government deposits. We will also deliver major enhancements to our bank digital offerings in the country (Web-2, Mobile app, SMS enhancements, etc.) as well as core banking upgrades (CTF & RBS release). The Bank also intends to integrate the Kuwait National Payment System (KNPS), the GCC Real-Time Gross Settlement System (GCC-RTGS) and the SINNAD card network into our core banking.

In Jordan, the Bank intends to gradually replace its Tawarruq products with a new product line beginning in 2020.

Al Rajhi Bank will seek to build a digital proposition around our niche market in Malaysia in 2020, leveraging our existing digital banking platform and strategic collaborations, complemented by more robust deposit campaigns.

International Business Group Highlights 2019

Country	Revenue (2019)	Expenses (2019)	Net profit (2019)
Kuwait	SAR 75,601	SAR 57,696	SAR 101,679
Jordan	SAR 133,039	SAR 74,411	SAR 34,879
Malaysia	SAR 195,085	SAR 170,860	SAR 23,888

Digital Footprint & Transformation

SME Online Banking Services

Mobile App

Tahweel App

ATMs and kiosks

Online Banking Desktop and eFinance facilities

During 2019 Al Rajhi Bank continued its comprehensive digital transformation initiative, launched in 2018 to deliver products and services to clients through digital channels based on a "mobile first" approach. This transformation is built around the four core themes of our digital strategy: to expand smart channels and formats; enhance customer journeys; migrate customers to self-service channels; and deliver innovations in terms of payments.

Delivering improvements in every area of our offering, 2019 saw encouraging progress towards these strategic goals. We enhanced our SME Online Banking Services with additional capabilities for cheque book management, direct debits, soft tokens, and point-of-sale management, invoicing (Esal), and Aramco payment management.

Improvements to our Mobile App included facilities to apply for pre-paid credit cards, increase online banking limits, add international beneficiaries and request additional keys, as well as launching Personal Financing Watani via the app. Other enhancements included Apple Pay support, and tools to renew vehicle registrations, request refunds and transaction claims and set up advance payments. For the first time in the market, we also added the facility to add beneficiaries via their mobile.

Meanwhile, enhancements to our Tahweel App included support for six additional languages, as well as facilities to update ID details, track remittances, add international beneficiaries and request MOI refunds. Other enhancements were also made to our mobile apps in Kuwait and Jordan.

Improvements to our network of ATMs and kiosks included new Hyosung and remittance kiosks, as well as draft cheque printing facilities. Meanwhile, phases 1 and 2 of our Keyboard App for Android and for iOS were completed, we added new features to our Online Banking Desktop and eFinance facilities, and launched Phase 1 of our new online account opening service.

Delivering Cutting-edge Digital Improvements in 2020

The coming year will see major enhancements to our digital offering, both to SMEs and for individuals, with a focus on financial product digitization via our mobile banking channel, ensuring this remains the preferred – and most advanced – means through which to bank with us, and offering an unparalleled mobile banking experience for our customers.

More generally, we will continue to digitize customer journeys across our different service areas, improving operational processes to achieve maximum speed and client satisfaction as we migrate more of our customers to our evolving self-service channels. These include continued measures to enhance kiosks and ATMs, as well as innovations in the payments sphere to encourage customer on-boarding – including in collaboration with the SAMA Sandbox initiative – as well as in the realm of point-of-sale solutions to support the achievement of the 2030 Vision.

Sharia Group

Since its foundation, Al Rajhi Bank has meticulously ensured that all Sharia precepts are adhered to in all of its transactions and services. In order to maintain this significant commitment, the Bank assigns such responsibility to an independent Shariah body, whose members are distinguished scholars.

The composition of this body and its regulations are approved by the General Assembly; its decisions are binding on all of the Bank's departments, thereby ensuring our commitment to the provisions of Islamic Sharia in all our business and activities – both inside and outside the Kingdom of Saudi Arabia.

The Sharia Board holds periodic meetings in which it examines all the Bank's products, contracts, investments, financing agreements, and all other propositions and transactions. The Sharia Board met 43 times during 2019, during which it examined more than 290 topics including banking products, agreements, contracts, questions and inquiries, and issued necessary decisions for each case (1,198 decisions) as well as guidance to be adopted and acted upon.

Structure of the Sharia Group

In order for the Sharia Board to achieve its objectives, the Sharia Group was formed within the Bank and consists of two departments:

1. Sharia Board Secretariat Department:
This is staffed by a number of advisors who study banking products, agreements and contracts received from various groups and departments in the Bank, and prepare relevant reports to be presented to the Sharia Board. Thereafter, the Department communicates with groups and other Bank departments to inform them of the recommendations and decisions of the Sharia Board. In addition, the Department participates in the Bank's development of Sharia products and provides Sharia counseling to other Groups and departments in accordance with the decisions of the Sharia Board. During 2019, the Department prepared materials on (250) various topics.

2. Sharia Audit Department:
It supervises all the Bank's activities in relation to applying and adhering to the decisions and recommendations of the Sharia Board, in order to ensure that there are no unauthorized products, contracts or models and that employees understand the Sharia Board's decisions through an integrated team of Sharia monitors, it performs Sharia audits of the Bank's business through automated systems and field visits, and is responsible for developing and reviewing auditing standards issued by the Sharia Board, which totaled 1,184 by end-2019.

Activities and Oversight in 2019

During 2019, the Sharia Group sought to expand the prevailing awareness level of the Bank's employees, customers and those who are interested in Islamic banking, through a variety of initiatives and events that included (39) separate specialized Sharia banking courses for employees including marketing staff, branch managers, area managers, operations managers and leaders of excellence, along with special courses for Cards Department employees. The Group also held (25) joint workshops, in which they discussed Sharia principals and aspects of all banking transactions and activities, with various different bank departments, various banks and related governmental authorities.

Further, the Sharia Group answered (730) inquiries including (540) telephone inquiries and (190) postal inquiries during the year; sent (12) awareness messages to the Bank's employees; and printed and distributed a number of books on Islamic banking and financial transactions.

The Group represented the Bank at the meetings of the banking committee of the Saudi Arabian Monetary Authority (SAMA) and assumed the Chairmanship of the committee during 2019. The Group representatives also participated in specialized seminars such as those held by the Research Center of Excellence of Imam Muhammad bin Saud Islamic University in addition to NCB seminar on banking services and activities.

It also provided scientific support to a number of Islamic scholars in the field of Islamic banking services and trained 12 researchers from Imam Muhammad bin Saud Islamic University, including both graduates and undergraduates.

Shariah Group Achievements in 2019

- 29 training courses for employees
- 25 joint workshops
- Answering 730 questions and inquiries

CFO Review

Income statement

Al Rajhi Bank reported net income of 10,159 Million for the full year 2019, reflecting strong momentum in the delivery of the strategy, and resulting in improved financial metrics.

	FY 2019 SAR Mn.	FY 2018 SAR Mn.	YoY %
Net financing and investment income	**16,428**	14,487	13.4%
Fees and other income	**3,057**	2,833	7.9%
Total operating income	**19,484**	17,320	12.5%
Operating expenses	**-6,386**	-5,653	12.9%
Net impairment charge	**-1,772**	-1,531	15.8%
Zakat	**-1,168**	-6,368	-81.7%
Net income for the period	**10,159**	3,768	169.6%
Earnings per share (SAR)	**4.06**	1.51*	168.8%
Dividends per share (SAR)	**3.00**	2.76*	8.6%
Return on equity (%)	**20.49**	7.01	192.2%
Return on assets (%)	**2.76**	1.04	165.4%
Net financing and investment margin (%)	**5.22**	4.75	9.9%
Cost to income ratio (%)	**32.8**	33.4	-1.7%
Cost of risk (%)	**0.71**	0.64	10.9%

* Earning per share and Dividends per share for 2018 have been calculated based on 2,500 million shares to give a retrospective effect of the change in the number of shares increased as a result of the bonus shares issued.

Operating income

Total operating income for 2019 reached SAR 19,484 Million, 12.5% higher than in 2018, reflecting strength across the board in main businesses.

Net financing and investment income totalled SAR 16,428 Million, up 13.4% year-on-year. This was driven by a widening of the financing and investment margin, which reached 5.22% as our funding platform continued to deliver a world-class funding mix at the lowest industry cost. Fees and other income grew 7.9% to SAR 3,057 Million as a result of more competitive fee environment in the Retail and Corporate segments.

Exchange income was SAR 774 Million, increased from SAR 755 Million in 2018, reflecting management initiatives despite challenging market environment, and other income was SAR 295 Million, increased from SAR 210 Million last year.

Financial results comparison

	2019 SAR Mn.	2018 SAR Mn.	2017 SAR Mn.	2016 SAR Mn.	2015 SAR Mn.
Total operating income	**19,484**	17,320	15,905	15,341	13,746
Operating expenses	**8,158**	7,183	5,237	5,007	4,658
Net income for the period	**10,159**	3,768	9,121	8,126	7,130

Operating expenses

Total operating expenses for the year increased by 13% to reach SAR 6,386 Million, largely reflecting the ongoing investment in our digital capabilities, as well as the introduction of VAT. The cost-to-income ratio of 32.8% for the year represents a 60-basis point decrease against 2018.

Impairment charge

Net impairment charge for the year was 15.8% higher than in 2018, at SAR 1,772 Million. The cost of risk was 0.71% against 0.64% last year.

Balance sheet

Total assets grew by 5.5% year-on-year as the Bank was supported by solid financing landscape led by mortgage financing a long with further optimization of returns on treasury portfolio.

	FY 2019 SAR Mn.	FY 2018 SAR Mn.	YoY %
Cash and balances with SAMA and other central banks	**39,294**	43,246	-9.1%
Due from banks and other financial Institutions	**32,058**	32,387	4.1%
Investments, net	**46,843**	43,063	8.8%
Financing, net	**249,683**	231,758	7.7%
Total assets	**384,087**	364,031	5.4%
Due to banks and other financial institutions	**2,219**	7,290	-69.6%
Customers' deposits	**312,406**	293,909	6.3%
Total liabilities	**332,895**	315,725	5.4%
Total shareholders' equity	**51,192**	48,306	6.0%
Risk weighted assets	**272,321**	254,506	7.0%
Tier 1 capital ratio (%)	**18.8**	18.98	-0.9%
Total capital adequacy ratio (%)	**19.87**	20.07	-1.0%
Liquidity coverage ratio (LCR) (%)	**175**	196	-10.7%
Basel III leverage ratio (%)	**12.9**	12.9	0%
Financing to customer deposits ratio (%)	**79.2**	80.8	-2.0%

Assets and liabilities comparison

	2019 SAR Mn.	2018 SAR Mn.	2017 SAR Mn.	2016 SAR Mn.	2015 SAR Mn.
Cash in SAMA and other central banks	**39,294,099**	43,246,043	48,282,471	42,149,905	27,053,716
Dues from banks and other financial institutions	**32,058,182**	32,387,760	10,709,795	26,578,525	26,911,056
Investments, net	**46,842,630**	43,062,565	36,401,092	34,032,879	39,876,864
Financing, net	**249,682,805**	231,758,206	233,535,573	224,994,124	210,217,868
Property and equipment, net	**10,407,247**	8,649,435	7,858,127	6,485,162	5,578,931
Investment properties, net	**1,383,849**	1,297,590	1,314,006	1,330,868	1,350,000
Other assets, net	**4,417,764**	3,629,245	5,015,464	4,140,354	4,631,213
Total assets	**384,086,576**	364,030,844	343,116,528	339,711,817	315,619,648
Dues to banks and other financial institutions	**2,219,604**	7,289,624	5,522,567	8,916,970	4,558,224
Customers' deposits	**312,405,823**	293,909,125	273,056,445	272,593,136	257,821,641
Other liabilities	**18,269,492**	14,526,229	8,786,598	6,254,839	6,600,729
Total liabilities	**332,894,919**	315,724,978	287,365,610	287,764,945	268,980,594

Key performance indicators

Analysis of income by operating segment

	Retail	Corporate	Treasury	Invesment services and brokerage	Total
Total operating income (SAR '000)	13,590,815	2,531,922	2,898,349	463,378	19,484,464
Total operating expenses (SAR '000)	-7,164,408	-381,499	-459,718	-152,481	-8,158,106
Net income before zakat (SAR '000)	6,426,407	2,150,423	2,438,631	310,897	11,326,358

Investments

Net investments increased by 8.8% in 2019, to SAR 46,843 Million, mainly driven by the increase in T-bills placement and government Sukuk.

Financing and advances

Net financing was increased by 7.7%, at 249,683 Million, as continued growth in Retail financing offset limited Corporate financing opportunities and some loan repayments. The overall financing mix remains predominantly Retail, with 75% of net exposure.

Customers' deposits

Customer deposits increased by 6.3% in 2019 to SAR 312,406 Million as the Bank continued to grow non-profit bearing deposits, which represented 91% of total deposits at year-end 2019.

Credit quality

The non-performing financing ratio remains low at 0.90%, a decrease from 0.96% last year, this reflect the health of the overall financing portfolio especially retail. 2019 coverage ratio remains high at 303%.

Capital

Al Rajhi Bank continued to maintain a strong capitalization profile with core equity Tier 1 and total capital adequacy ratios of 18.8% and 19.9%, for 2018 and 2019 respectfully. These ratios reflect a 7% increase in risk-weighted assets resulting from growth in financing. Additionally, the Bank's dividends pay-out ratio for 2019 expected to be 74%.

Liquidity

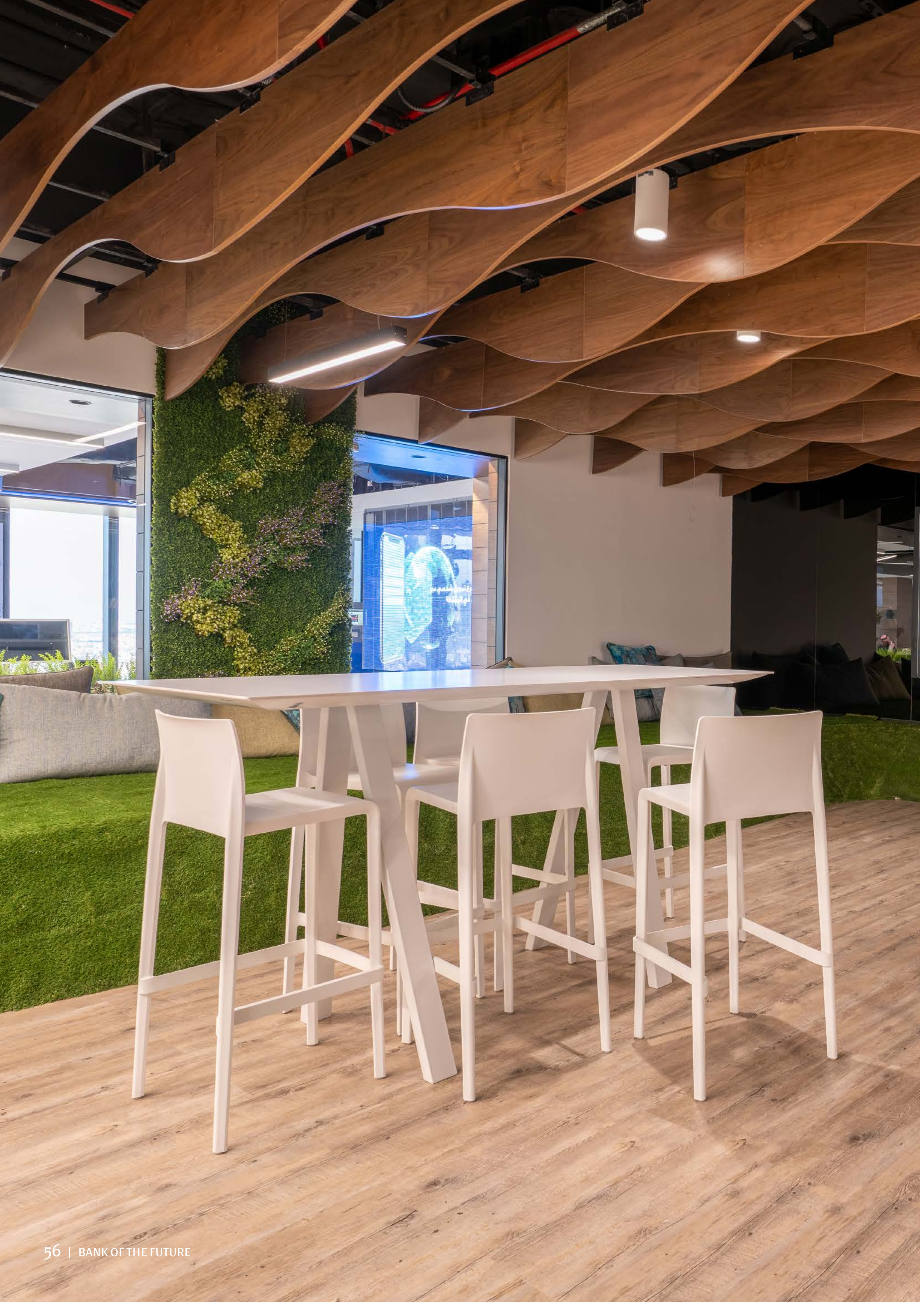
The Bank's liquidity position remained healthy with a liquidity coverage ratio of 175%.

Subsidiaries Financial Results Review

Activity Type		Revenue (SAR)
Al Rajhi Capital - KSA	Al Rajhi Capital is a Saudi Closed Joint Stock Company authorised by the Capital Market Authority to carry on securities business in the activities of Dealing/brokerage, Managing assets, Advising, Arranging and Custody.	463,377,393
Al Rajhi Development Company - KSA	A limited liability company registered in the Kingdom of Saudi Arabia to support the mortgage programs of the Bank through transferring and holding the title deeds of real estate properties under its name on behalf of the Bank, collection of revenue of certain properties sold by the Bank , provide real estate and engineering consulting services, provide documentation service to register the real estate properties and overseeing the evaluation of real estate properties.	63,719,346
Al Rajhi Takaful Agency Company - KSA	A limited liability company registered in the Kingdom of Saudi Arabia to act as an agent for insurance brokerage activities per the agency agreement with Al Rajhi Cooperative Insurance Company.	10,593,339
Al Rajhi Company for Management Services - KSA	A limited liability company registered in the Kingdom of Saudi Arabia to provide recruitment services.	259,724,982
Emkan Finance Company - KSA	A Closed joint stock company registered in the Kingdom of Saudi Arabia providing micro consumer financing, finance lease and small and medium business financing. As of 31 December, the company is under licensing process with Saudi Arabian Monetary Authority (SAMA).	-
Al Rajhi Bank - Jordan	Foreign branch operating in the Hashemite Kingdom of Jordan and provides all financial, banking, investment services, import and trade of precious metals and stones in accordance with the provisions of Islamic Sharia and in accordance with the applicable banking law.	133,039,798
Al Rajhi Bank - Kuwait	Foreign registered branch at the Central Bank of Kuwait	74,231,977
Al Rajhi Limited Company - Malysia	An Islamic bank has been granted full banking license to operate as the first foreign bank in Malaysia under the Islamic Financial Services since 2013. It was established and operating in Malaysia	195,085,437

Geographical analysis of the total income of the bank and its subsidiaries

Year	KSA	East Asia	Total
2019	19,289,378,563	195,085,437	19,484,464,000



Sustainability

Al Rajhi Bank is committed to operating as a responsible business and generating positive value for our stakeholders – including customers, employees, shareholders and communities. This commitment is reflected not only in our governance practices and financial performance, but also in the innovative approaches we are taking to contribute to sustained economic, social and human prosperity, in line with national and international agendas including Saudi Vision 2030 and the UN Sustainable Development Goals.

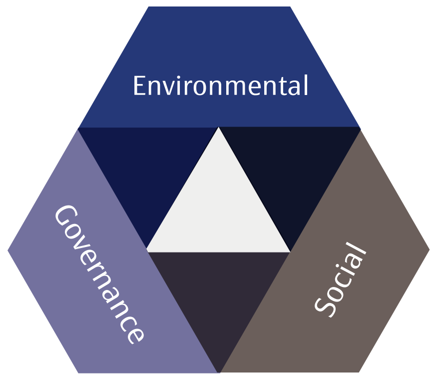
Our ESG Approach

Banking is a business of responsibility. Financial responsibility and broader social responsibility. At Al Rajhi Bank we take both these obligations seriously. We work diligently to be a well-managed, well-disciplined institution that protects people's money from a fiduciary perspective and enables customers and businesses to achieve their financial goals. At the same time, we strive to live up to our societal duties so that we foster economic and community prosperity.

These responsibilities dictate our commitment to environmental, social and governance (ESG) practices. We have initiatives and programs in place across these pillars, to deliver on our ESG ambitions, which are underpinned by the strong foundation of our core values and standards.

Our Core Values are the heart and soul of Al Rajhi Bank, giving us a platform on which to achieve current and long-term ESG goals. Complementing these values, our Policy on Social Responsibility, established in 2014 and last updated in 2018, outlines how we contribute to sustainable development and the well-being of employees and their families, local communities and the broader society in which we operate. Specifically, the policy articulates our commitment towards:

1. Our internal environment (workplace)
2. Employees
3. Customers and shareholders
4. Communities and society



ESG Management and Disclosure

While a range of ESG matters have always been integrated in our decision-making, including how we evaluate risks and opportunities, we must rise up to the evolving standards expected of us. That means constantly working on new and existing initiatives to ensure we are addressing the most relevant issues concerning our stakeholders and our business. It also means we need to do a better job of communicating our management approaches, targets, performance and progress around material ESG issues.

We aim to improve ESG disclosure by:

- Increasing transparency on how the Bank manages its ESG issues
- Disclosing the most relevant KPIs while embracing non-financial reporting standards such as GRI and SASB
- Setting relevant targets and priorities to help create value and demonstrating, through this ESG Report and our Annual Report, how the Bank plans to fulfil them

We have started to develop targets and benchmarks in several areas to drive and evaluate our progress.

There is a dedicated team overseeing the Bank's ESG agenda. This team acts as a central resource and works with colleagues across the organization to help identify and prioritize ESG issues, explore opportunities for improvement, and validate data for reporting.

The ESG issues that matter most to our Bank and stakeholders

There are numerous ESG issues, risks and opportunities that demand our attention. We focus on those that matter most to our stakeholders, directly relate to our business and are areas where we feel we can make a positive impact. These are considered our most material topics.

Through our regular materiality assessments, we have identified the following 15 key areas, our current priority ESG issues, which are the focus of our forward-looking strategy and program, as well as this summary of our sustainability report. They are:

- Managing Our Environmental Impacts
- Sustainable Finance
- Responsible Customer Relations
- Digital Leadership
- Financial Inclusion
- Employee Engagement and Wellbeing
- Talent Development
- Diversity and Inclusion
- Compensation and Benefits
- Community Investment
- Responsible Procurement
- Corporate Governance
- Managing Risk
- Integrity and Transparency
- Data Protection and Cyber Security

Managing Our Environmental Impacts

Rajhi Bank is committed to addressing environmental challenges and meeting the sustainability goals outlined in Vision 2030. We aim to better understand, manage and reduce our operational impact on the environment, consequently protecting the planet for future generations.

As a responsible financial institution, we are mindful of the impact of our decisions and operations and recognize our role in the transformation towards a sustainable community. We aim to reduce the Bank's carbon footprint and provide transparency in our performance.

Another important way we demonstrate a balanced, responsible approach to banking is through our lending and investment activities. As the world's leading Islamic banking institution, we provide ethical screening and are now incorporating broader ESG factors into consideration through our lending and investing activities. We have procedures in place which assess environmental risks and ensure products we fund do not have a negative impact on the environment.

Sustainable Finance

As a world-leading Islamic bank, responsible finance is embedded in our decision-making. Our financial solutions are designed to be Sharia-compliant, so we apply strict standards pertaining to credit evaluation and financing and we look to avoid funding projects that may pose negative environmental or social risks for the Bank.

Prior to granting credit facilities, we conduct a credit risk assessment that incorporates statistical risk models and other evaluation tools. Employees involved in lending engage with clients in our loan portfolio and oversee their compliance with requirements stipulated in our agreements and transactions. Given the growing importance of ESG issues, going forward we will work to integrate broader ESG evaluations into our lending processes.

In addition, the Bank renegotiates loans to customers facing financial difficulties. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default 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.

Responsible Customer Relations

With the ambition to be recognized as the most recommended bank in the Kingdom of Saudi Arabia, we place a strong focus on being a customer-centric organization, so that we deliver what is best for our stakeholders. We strive to create an environment where customers not only benefit from our products and services, but function as loyal ambassadors who advocate Al Rajhi Bank to others. By empowering customers, we can build healthier customer relationships, earn new clientele and maintain the Bank's growth.

To help build the right culture of advocacy within Al Rajhi Bank, we educate employees on elements of the customer experience. We have an Employee Code of Conduct, Client Charter and Banking Consumer Protection Principles, which together articulate our commitment to responsible business and safeguarding customer interests. The principles include our commitment to professionalism, fair and equitable dealing (with extra attention extended to those with low income, little education and special needs), disclosure and transparency, privacy protection, and financial education and awareness.

We have programs and appropriate mechanisms in place that help both existing and future customers to develop their knowledge, skills and awareness to appropriately understand basic risks, and assist them in making informed and effective decisions. We also have a process in place that directs them to obtain appropriate assistance when required.

Listening to our customers and improving our service based on their feedback is crucial to our success. We listen to our customers and monitor our progress through multiple channels, including Net Promoter Score (NPS), Voice of Customer program and customer complaints.

Our Customer Experience Council is responsible for reviewing issues affecting the customer experience and prioritizing bank-wide improvement initiatives, in line with Al Rajhi Bank's "Customer Focus" strategy. Chaired by the CEO.

Supporting the Council is our Customer Experience Department. Its responsibilities include: contributions to the Bank's customer focus strategy; designing and driving a culture of advocacy including customer awareness programs; monitoring and reporting on experiential and operational service metrics; monitoring complaints trends and resolution performance; and action planning and implementing service improvement changes.

The Bank has a dedicated Service Improvement team responsible for improving customer experience. The team harnesses wide ranging insights to identify potential improvement opportunities in collaboration with internal stakeholders and facilitates launching and tracking service improvement initiatives as part of an annual plan.

Digital Leadership

The banking sector is transforming into a digital industry, and Al Rajhi Bank is at the forefront of this change. We are committed to pioneering digital banking by leveraging the latest technologies to provide customers with the highest quality services and value.

Digital leadership is one of the five pillars of the Bank's "Back to Basics" strategic plan, and we remain focused on strategically expanding channels, digitizing customer journeys, migrating customers to self-service channels, and exploring innovations in payment methods. Each year we introduce new solutions to grow our digital footprint and enhance customer experience, and we see consumer engagement continue to grow. Today, 67% of customer transactions are performed digitally.

Among our offerings:

- The innovative Al Mubasher app features a host of services such as bill payments and the ability to apply for products, as well as the latest advancements in security technology. We continually enhance the app with performance upgrades to improve user experience.
- The ASRAA self-service machine is a one-of-a-kind "smart booth" with innovative solutions for customers' banking operations and transactions. Through the machine, customers can renew their banking cards, print check books and six-month account statements, make transfers and perform other activities. It is the largest self-service network in the Middle East in terms of availability and diversity of services.
- Al Rajhi Bank has the largest ATM network in the Kingdom, with more than 5,125 ATMs located throughout the country..

As part of our retail expansion strategy, we have adopted a new layout for each branch designed to enhance the customer experience and entice them to try out and experience digital banking. We are also establishing an innovation center in our new facility and will be expanding the level of customer input in both the design and prioritization of new features and products. The feedback and suggestions from customers have enhanced our ability to increase conversion to digital channels and functionality.

Financial Inclusion

We are dedicated to driving greater financial inclusion and pushing the boundaries of financial accessibility. We believe that affordable, accessible and relevant financial products and services are important to ensuring that diverse people and businesses benefit from the financial system. We offer products and services that deliver specific social and economic benefits for consumers, including underserved and disadvantaged populations. For example, the Bank is the leading issuer of payroll cards in the Kingdom. This product aims predominantly to assist lower-paid workers. Our growing number of digital banking solutions are providing such workers with unprecedented opportunities to access and benefit from the financial system.

70% of households in the Kingdom are protected from impactful reforms, primarily due to the support of Citizen Accounts. The program will support Saudi household spending through to 2020, which is predicted to maintain positive growth across higher expenditure thresholds. We are also focused on becoming a more gender-inclusive bank, by improving our outreach to women, opening value opportunities for them and removing barriers they may face in doing business with us, whether as customers or as suppliers.
SMEs can sometimes have difficulty accessing financing to support their operations. The Saudi banking industry stands to benefit from significant growth opportunities in the SME sector. To better support the SME sector, the Bank created the Micro, Small and Medium Enterprises Committee to support SAMA requirements and provide an overall boost to the market. Al Rajhi Bank has a number of offerings targeting SMEs and we are committed to helping them access much-needed capital and other services to launch and/or expand their operations. As part of our contribution towards Saudi Vision 2030, we are increasing the Bank's support for SME growth by facilitating various lending programs and providing more funding for the sector.

Engagement and Wellbeing

As the largest banking employer in the Kingdom, we recognize the importance of having employees with a high level of wellbeing and enthusiasm for the work they do. Staff who are emotionally committed to the Bank and our ongoing success ultimately stay longer, bring our brand values to life and give our customers a better banking experience.

We strive to nurture an engaged workforce through a range of initiatives. These include recognition awards, promotions, and volunteering opportunities to make a difference in the community. We also promote a culture of open communication with all employees to assess engagement levels and identify areas that require further attention. Communication channels include "pulse" surveys (held annually), focus group discussions, an HR newsletter, our online employee communication portal (TAWASUL), and annual roadshows and town halls.

To create a fair work environment, we have adopted easy-to-use procedures for employees located anywhere to raise concerns about their workplace. This is supported by a formal Grievance Policy detailing our commitment to hearing each and every grievance raised by employees, through a transparent process to protect their rights and to achieve fair solutions.

Over the past five years, we have designed and implemented a large-scale transformation program, consisting of more than 20 projects aimed at enhancing employee engagement and human resource management, so that we become the preferred destination for candidates.

To foster the physical and mental well-being of our team members, we work diligently to provide a positive health and safety culture. Various policies and procedures are in place to mitigate safety risks in our branches and offices, and we encourage general employee wellness by organizing informal team-building events, Ramadan family activities, childcare support, gym discounts, a best-in-class fitness center at Al Rajhi Bank head office and operations center, among other initiatives.

Talent Development

As the blue-chip Islamic bank, it is critical for us to ensure a pipeline of world-class talent and provide our people with professional development opportunities that will inspire them to build a long-term career with us.

Once on board, new recruits are nurtured by Al Rajhi Bank's Talent Council to ensure that they have the best possible experience with us, and that we offer an environment that brings out their abilities. The Talent Council – which is chaired by our CEO – reflects our commitment to developing strong Saudi leadership. The Council plays a critical role in identifying, developing, nurturing and mobilizing the Bank's Saudi talent, including for leadership roles.

We invest heavily in employee education and offer a wide range of professional development opportunities, including through our newly established Al Rajhi Bank Academy, an in-house, state-of-the-art training facility. We also partner with 20 different educational and training institutions, such as Harvard and London Business Schools, in order to support external skill development and joint training programs for staff.

The HR Pipeline

Recruit the best
↓
Develop talent
↓
Cater to graduates
↓
Plan for succession
↓
Strengthen leadership
↓
Drive performance

Our Performance Management System helps guide and monitor each employee's progress toward individual, department and Bank goals. All staff have an opportunity to discuss their growth during the mid-year and end-of-year performance review and career development discussion. Dedicated career development paths exist for each job family, enabling discussion around careers.

A dedicated Governance Unit has been established within HR covering audit, risk, compliance and SAMA-related matters. With one of the largest banking workforces in the Kingdom, it is of critical importance that HR maintains strict control and adherence to all policies, procedures and regulatory guidelines. Standardized Control and Risk Governance KPIs are included in all relevant employees' scorecards.

Diversity and Inclusion

Strengthening diversity is a heightened priority for Al Rajhi Bank. An important factor in being an employer of choice is that we strive to have a gender balance that reflects today's global marketplace. Our commitment to diversity and inclusion is integral to fostering successful relationships with customers and other stakeholders.

We believe all our employees should be valued for who they are as individuals and have equal opportunity to excel. To create an inclusive culture and diverse workforce, we are prioritizing the following areas:

- Running communications campaigns to reinforce our commitment to an inclusive work environment.
- Growing the number of female employees in our workforce, while providing them with opportunities to advance towards management positions. We have implemented structured career paths, learning and development initiatives, and special benefits to support our female employees in building their career with the Bank. There is more we need to do to gender balance our organization and cultivate a pipeline of future female leaders, and plans are in place to achieve these ambitions.
- Having strong programs, policies and training initiatives in place to support our diversity goals and values. For example, our Employee Code of Conduct outlines expected behaviors, including staff interactions and respect for others, and we have a grievance handling system to address any incidents of workplace discrimination or harassment. We offer a parental leave policy: female employees are entitled to 70 days maternity leave and male employees receive three days paternity leave.
- Measuring our progress to find areas for improvement.

Beyond our operations, we are supporting a more inclusive society. Our community investment programs ensure diversity in groups that benefit from these programs, including the differently-abled, orphans, the unfortunate and those with special needs.

Compensation and Benefits

Providing competitive compensation and meaningful benefits are essential to attracting, retaining and equitably rewarding top talent.

To ensure consistency and comparability, we have developed an Employee Value Proposition and compensation policies and practices on a differentiated, pay-for-performance-and-potential model that is linked to the Bank's and the individual's performance and market pay position.

The key pillars of our compensation framework are:

1. Governance – Board of Directors oversight
2. Policies and procedures
3. Compensation structure and incentive schemes

Our compensation package is built towards rewarding performance while encouraging behaviors that support Bank values, our risk management framework and compliance with regulatory requirements. Our total compensation approach comprises fixed and variable components.

In line with the SAMA Rules on compensation practices, both the incentive plans and the bonus plans (including the deferred bonus) are approved by both the Chief Risk Officer and the Board of Directors. Risk factors are an integral part of the balanced scorecard for performance management of senior executives.

We offer all employees a full spectrum of benefits, such as education allowances, travel allowances and best-in-class medical insurance. The Bank grants free shares to its senior employees who are seen as valuable human assets. This helps to ensure the long-term commitment of these employees. Granting of shares is based on the approval of the Board of Directors following their recommendation by the Nomination and Remuneration Committee.

Community Investment

We contribute to a range of programs geared to providing relief and support for marginalised or disadvantaged segments of society. We also partner with the public sector to help improve the services it delivers.

Employee volunteering is a growing part of our community work. Volunteering embodies Saudi society and culture, which encourage cooperation and solidarity for the sake of public interest. Since 2016, we have significantly increased the interest and engagement of employees in community service and have set a goal of achieving 50,000 volunteer hours by 2020. The volunteer efforts of the Banks' employees align with Saudi Vision 2030, which pays special attention to volunteer work and aims to reach a million volunteers by 2030.

Towards the end of each year, we develop a Corporate Social Responsibility (CSR) plan that details our community investment goals and activities for the year ahead, including employee volunteering work. The plan is reviewed and approved by the Head of Corporate Communications, Chief of Marketing and the CEO. We measure the effectiveness of our community investments through various methods, including feedback we receive from customers, employees and community organizations and positive coverage in local newspapers.

Responsible Procurement

As a large organization with operations across the Kingdom and in several international locations, Al Rajhi Bank relies on hundreds of suppliers to support its operations. Each year we spend considerable sums on purchases ranging from IT equipment to office supplies.

Supporting local suppliers is a priority: more than 70% of our procurement spend is on Saudi businesses. We are also committed to supplier diversity, including female-owned enterprises and SMEs.

Starting in 2017, we began formally tracking supplier data. Prior to this time, it was not carried out via systematic methods. We will continue to expand this tracking to including additional information and performance indicators.

We endeavor to work with suppliers that share Al Rajhi Bank's values and commitment to responsible business. Our major vendor agreements require basic minimum standards and stipulations for doing business with us. Currently, we do not evaluate specific ESG risks in the Bank's procurement decision-making or formally measure the environmental and social impacts of our procurement practices. We recognize the positive influence we have as a major purchaser of goods and services, and we will therefore explore and implement ways to drive enhanced ESG performance throughout our supply chain.

Our Business Operations and Support department is responsible for managing all suppliers and service providers for the Bank in terms of contracts, purchase orders and invoices.

Corporate Governance

Note: This section provides a brief overview of our corporate governance practices. For further detail, see the 'Corporate Governance' chapter of this Annual Report (pages 68-92).

Our market leadership, continued profitability and long-term stability depend on the foundation of robust and effective corporate governance. We are committed to promoting high standards and evolving best practices in corporate governance and have sound policies and procedures in place that reflect this commitment, while helping us live up to our corporate values.

Our Corporate Governance Framework is based on five Board committees – the Executive Committee, Nomination and Remuneration Committee, Governance Committee, Risk Committee and Audit and Compliance Committee. The framework is supported by Level 1 and Level 2 Management Committees. This structure is underpinned by a series of governance enablers that are vital to ensuring that prudent and effective controls are in place for clarity and discipline of good corporate governance: corporate values, organization design, policies and procedures, the Bank's authority matrix and effective communication.

AL RAJHI BANK'S GOVERNANCE PRACTICES AT A GLANCE

- Corporate Governance Manual and Supplement
- Code of Conduct
- Independent Directors
- Director Orientation and Continuing Education
- Annual Board Performance Evaluation
- Executive Compensation and Remuneration Standards
- Nomination and Membership Policy
- Policy on Related Party Transactions and Conflicts of Interest
- Whistleblower Policy
- Succession Planning
- Stakeholder Communication and Feedback Channels
- Oversight of ESG-Related Risks and Issues

Al Rajhi Bank has a comprehensive Board self-assessment process that evaluates three levels of performance: Board of Directors performance; Board committees' performance; and Board members' performance.

Al Rajhi Bank's commitment to providing Sharia-compliant banking services has been robust for the past 30 years. We have an independent Sharia Board, comprising notable scholars who are specialists in this field. Through their expertise and guidance, we are able to ensure Sharia compliance both within the Kingdom and beyond. The responsibility for constituting the Sharia Board and approving its regulation lies with the General Assembly. In addition, it is compulsory for all Bank departments to comply with the Sharia Board's resolutions.

Managing Risk

Operating in a highly competitive and dynamic environment, we are exposed to a variety of operational risks – including financial, liquidity, market, credit, security and environmental risks. Taking risk is a key factor in any banking business, and these risks are an inevitable consequence of participating in financial markets. The Bank's aim is to achieve an appropriate balance between risk and return and minimize potentially adverse effects on the Bank's financial performance.

We focus on accurately identifying potential risks and the impact of such risks on the Bank's value creation process. This involves establishing risk thresholds based on the Bank's risk appetite. We have established detailed policies and procedures to help identify and analyze relevant risks, manage capital effectively and apply sustainable processes. We review our risk management policies and systems on an ongoing basis to reflect changes in markets, products and emerging best practices.

The Bank has undertaken a range of projects and actions for improvement in all key risk areas, to reduce residual risk and mitigate potential impacts, including ESG-related issues, even when such issues have not been historically classified as ESG. Being Sharia-compliant means that the Bank is immune from risks resulting from speculative operations such as hedging, options, forward contracts and derivatives.

Integrity and Transparency

Integrity and transparency are core values at Al Rajhi Bank and are fundamental to forging relationships of trust. This means being open and honest while maintaining the highest standards of corporate and personal ethics, wherever we operate.

Our Code of Conduct applies to all employees, from the CEO to front-line staff across all operations, sets out guiding principles for our people and outlines our expectations on integrity, respecting the rules, laws and regulations relevant to the Bank's activities, compliance with Sharia laws, protecting confidential information, handling potential conflicts of interest, and professionalism in the work environment. All employees are expected to review and acknowledge understanding of the Code of Conduct on an annual basis, and testing is done to confirm their understanding. Any instances of misconduct can lead to termination of employment or other disciplinary action.

Wherever the Bank operates geographically, we support fundamental human rights and aim to treat all employees, customers, suppliers and community members with respect and dignity.

Al Rajhi Bank is committed to leadership in complying with all rules and regulations applicable within the Kingdom, as well as with by global standards and best practices. The Bank's Board of Directors and Executive Management have set a vision for Al Rajhi Bank to build a "world-class compliance framework", a goal that is an integral part of the Bank's strategy. We continue to invest in state-of-the-art compliance systems, technology-enabled processes and people, and take a zero-tolerance approach to non-compliance with regulatory requirements.

Financial Crime is a specialized department within our Compliance Group. It is responsible for combating:

- Money laundering
- Terrorism financing
- Financing weapons of mass destruction
- Bribery and corruption
- Sanction and name screening

As one of the biggest Saudi financial institutions and the world's largest Islamic bank, we have developed robust Anti-Money Laundering (AML), Counter-Terrorist Financing (CTF) and Sanctions frameworks. Read our Policy Statement on Anti-Money Laundering and Combating Terrorist Financing.

Our dedicated Compliance Group oversees compliance controls and supports the Bank in interpreting and implementing regulatory requirements. The Group Chief Compliance Officer (GCCO) leads the compliance function and assists management in identifying and assessing compliance issues and in guiding and educating staff on related matters. The GCCO has direct contact with the Board of Directors and Chairman of the Board. In addition, he directly reports to the Board Audit and Compliance Committee, and to the CEO administratively. The GCCO has oversight of the compliance programs of the Bank's overseas branches (Jordan and Kuwait) and banking subsidiary (Malaysia).

To create and sustain an open and enabling culture within the Bank – and help us deliver on our commitment to build a world-class compliance framework – we have a Whistleblowing Policy. It encourages employees to speak up and report improper behaviour or any activity that violates the Code of Conduct or any of the Bank's policies, procedures and instructions. All employees can access whistleblowing channels through which they can voice concerns anonymously without fear of repercussions.

We focus on providing timely and accurate performance results and strategic updates. We are proud of our sound reputation for communicating with our investors in a consistent, comprehensive and precise manner, taking this responsibility far beyond the minimum regulatory requirements. We provide information to our investors by various disclosures through the investor relations section of our website, investor presentations, quarterly disclosures and earning releases, earning calls and annual reports.

Data Protection and Cyber Security

The financial systems and networks supporting the Bank's business operations have grown in scope and complexity. Such growth is not without challenges. We endeavor to maintain pace with the needs of our customers, especially concerning cyber risk. The Bank fully understands the magnitude of risks posed to online transactions and is committed to the safety of our customers' online transactions. We have established a robust IT Risk Policy to ensure security.

From financial records to personal identification, we handle a considerable amount of information. Our banking operations depend on maintaining a secure, confidential environment, which is why we take our responsibility for protecting customer data very seriously. Remaining vigilant against potential threats is imperative for maintaining the trust of our stakeholders.

We have robust privacy and security practices in place, which include:

- Policies, standards and procedures to guide employees. These include our Banking Consumer Protection Principles, Employee Code of Conduct, Information Security Policy and Privacy Policy. Our Information Security Policy applies to all employees, contractors, third parties and others entrusted with the Bank's information.
- An Information Security Committee that oversees the overall information security posture at the bank and supports ARB's information security initiatives, compliance and implementation.
- Annual training and awareness campaigns to educate staff and customers on their security and privacy responsibilities.
- A strong security architecture consisting of firewalls, employee access controls, advanced day-to-day monitoring of our networks and physical facilities, and other controls.
- We follow external security standards and best practices. These include ISO 27001, a globally recognized standard for information security, and we run test procedures to ensure compliance with it. We also adhere to the PCI-Data Security Standard published by the Payment Card Industry Council.
- Ongoing testing and assessment of our security and privacy practices. We use tools and methods to identify and report on security and privacy vulnerabilities. For example, we conduct "penetration testing" periodically on our security systems and infrastructure, along with other types of assessment.

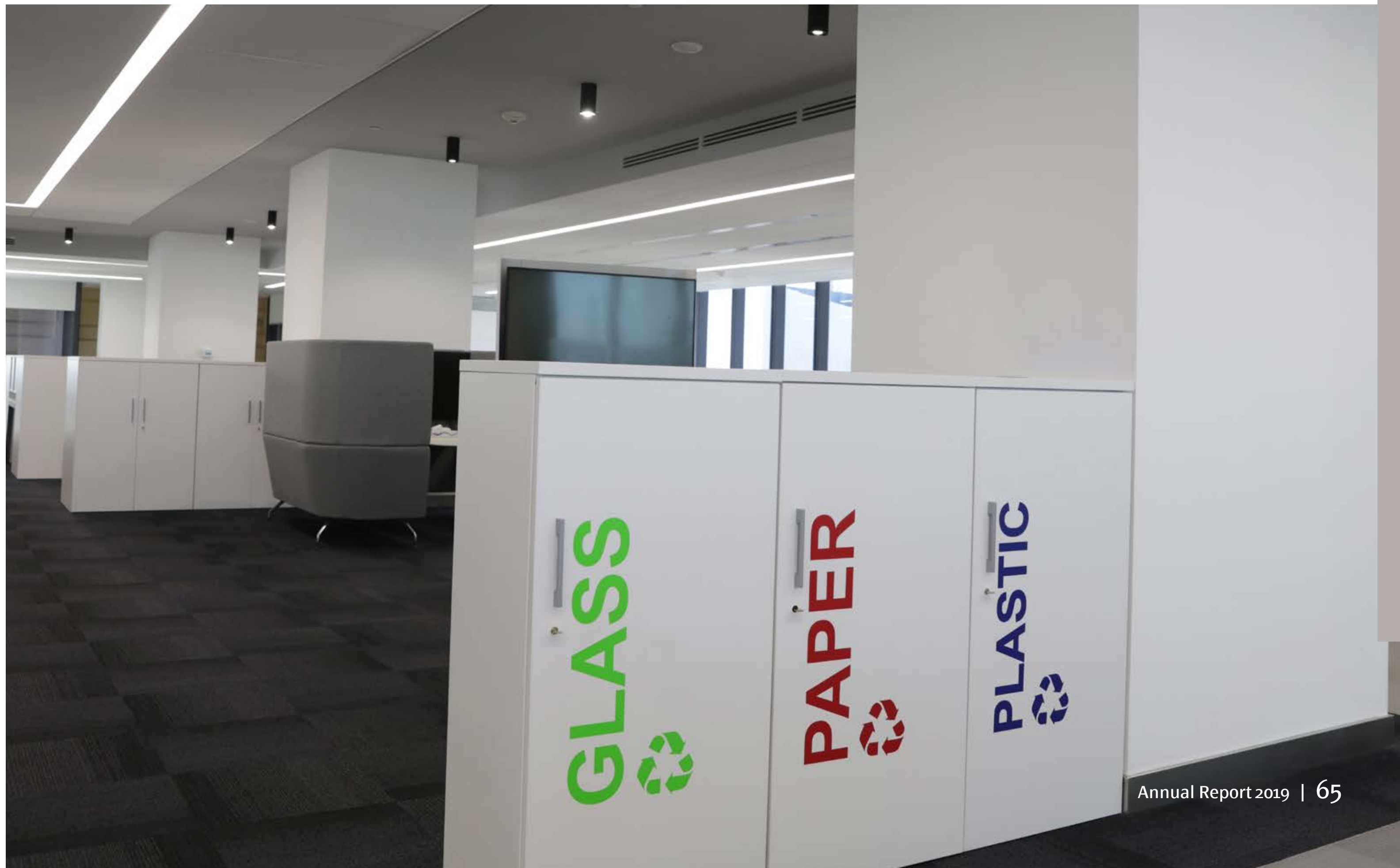
With the rise of the digital economy, cyber threats pose an increasing risk for all businesses. We continue to heighten our risk posture in this area while building the Bank's cyber security defences on multiple fronts. We also collaborate with governments, law enforcement and industry peers to share security intelligence and best practices in an effort to reduce cyber-crime in society.

Beyond our organization, we take steps to educate consumers about steps they can take to protect themselves. For example, on our website we offer security tips to consumers as part of our ongoing commitment to safer banking. These include tips for online banking and shopping, ways to protect credit and debit cards, guidance on overseas transactions, and more.

How we contribute to the UN SDGs

We seek to create a sustainable future and in turn contribute to the UN's Sustainable Development Goals.

ESG Pillar	Sustainable Development Goal	How Al Rajhi Bank Contributes
Environment		• Managing Our Environmental Impact
Social		• Sustainable Finance • Customer Experience • Responsible Customer Relations • Digital Leadership • Financial Inclusion
Governance		• Corporate Governance • Managing Risk • Integrity and Transparency • Data Protection and Cyber Security



03

Corporate Governance

Governance

The governance framework at Al Rajhi Bank is based on five Board Committees and a group of supporting executive committees of the first and second levels. This governance structure relies on several key pillars that ensure the clarity of good governance – those pillars include: The Bank's values, organizational structure design, policies and procedures, the authority delegation matrix and the effective communication among various internal and external stakeholders.

Policies relating to the Governance Manual

The Bank applies Saudi Arabian Monetary Authority's (SAMA) Corporate Governance Principles for Banks operating in the Kingdom of Saudi Arabia, as updated in March 2014, in addition to Capital Market's Authority's Corporate Governance Regulations (CMA), as updated in May 2019. The Bank has developed its Governance Manual and the guidelines that regulate the Board Committees and management committees, with all those documents being regularly reviewed by the Board and its committees.

The Bank adopts a set of policies, practices and procedures that enhances the governance framework considering the Board of Directors approved Delegation of Authorities (DOA) matrix, to adequately reflect internal practices. Most remarkably, the said policies include one relating to Management of Related Parties Transactions and conflicts of interest, in order to provide effective tools that address cases of conflict of interest to achieve integrity and transparency, while complying with the regulatory requirements set forth in the Companies Law, CMA Governance Manual and SAMA's principles and guidelines.

The Bank also adopts a set of comprehensive disclosure policies that enable shareholders and stakeholders to get all material information and developments in a timely manner without discrimination, inclusive of banking information required to be disclosed by SAMA and CMA regulations.

The Bank gives sufficient attention to the training and qualification of Board members and Executive Management and has developed executive programs to ensure such training. To that end, the Bank has developed an Introduction Pack to assist new Board members, which contains information pertaining to the Bank's strategy and the financial and operating aspects, as well as the obligations and duties of Board members.

The Bank has procedures in place to settle customer and shareholder complaints, which are monitored by the SAMA and CMA. It has also implemented a corporate social responsibility policy that aims to strengthen the social role of the Bank.

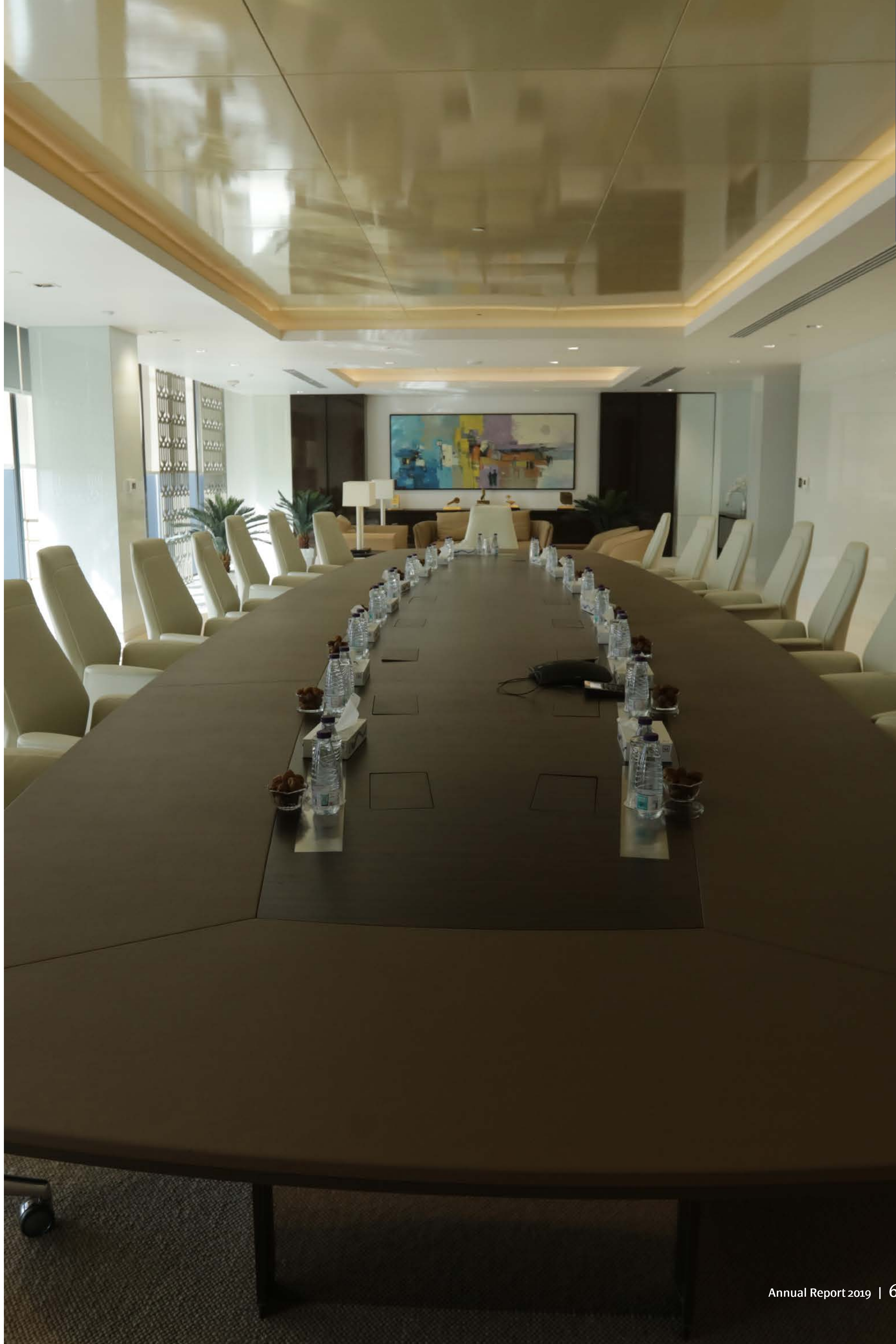
Corporate Governance Regulations of CMA

The Bank has given due cognizance to the currently applicable corporate governance regulations as enumerated by the CMA of the KSA. Given below is a report on corporate governance practices at the Bank and the extent of compliance with the relevant CMA regulations.

Implementation and non-implementation of provisions of the CMA Regulations

The Bank applies all provisions of Corporate Governance Regulations issued by the CMA, except the following guiding provisions:

Article / Clause	Requirements	Reasons for not applying
Article (41) – Clause "E"	The Board shall carry out the necessary arrangements to obtain an assessment of its performance from a competent third party every three years. (Guiding paragraph)	The assessment is conducted internally on an annual basis.
Article (54) – Clause "B"	The Chairman of the Audit Committee shall be an Independent Director. (Guiding paragraph)	A Non-Executive Board member chairs the Audit and Compliance Committee at ARB and he has been selected based on his qualifications which are found appropriate for the position.
Article (87)	The Ordinary General Assembly, based on the Board recommendation, shall establish a policy that guarantees a balance between its objectives and those of the community for purposes of developing the social and economic conditions of the community. (Guiding article)	ARB has a Social responsibility Policy approved by the Board of Directors.



Board structure

The Board of Directors of the Bank comprises 11 members elected by the Ordinary General Assembly every three years. Any member may stand for re-election after completing his or her term in accordance with the Bank's regulations.

Names of the companies inside and outside the Kingdom in which a Board member is a manager or a member of their current or previous Board

Member name	Names of companies where the Board member is a member of its current Boards or one of its Directors	Inside/ outside the Kingdom	Legal entity (listed joint stock company/ unlisted joint stock company/ limited liability)	Names of companies, in which the Board member is a member of its previous Boards or one of its previous Directors	Inside/ outside the Kingdom	Legal entity (listed joint stock company/ unlisted joint stock company/ limited liability)
Abdullah bin Sulaiman Al Rajhi	Al Rajhi Bank	Inside the Kingdom	Listed joint stock company	Al Rajhi Bank (CEO)	Inside the Kingdom	Listed joint stock company
	Al Rajhi Company for Cooperative Insurance		Listed joint stock company			
	Farabi Petrochemicals Company		Unlisted company			
	Al Rajhi Holding Group		Unlisted company			
	Al Rajhi Capital		Unlisted company			
	Fursan Travel & Tourism Company		Unlisted company			
	Al Farabi Investment Company		Limited liability company			
	Farabi Yanbu Petrochemicals Company		Unlisted company			
	Farabi Transformation Industries Company		Unlisted company			
	Saudi Carpet Supplies Manufacturing Company		Unlisted company			
	Jubail Saudi Company for flooring fabric solutions		Limited liability company			
	Green Vision for Artificial Grass Company		Limited liability company			
	Al Ajial Holding Company		Unlisted company			
Salah bin Ali Abalkhail	Al Rajhi Bank	Inside the Kingdom	Listed joint stock company			
	Al Rajhi Capital		Unlisted company			
	National Veterinary		Unlisted company			
	Salah Ablkhail Engineering Consultants		Limited liability company			
Abdulaziz bin Khaled Al Ghefaily	Al Rajhi Bank	Inside the Kingdom	Listed joint stock company	Industrialization & Energy Services Company (TAQA)	Inside the Kingdom	Unlisted company
				Dur Hospitality		Unlisted company
	Al Rajhi Capital		Unlisted company	Saudi Industries Development Company		Unlisted company
				Tabuk Agriculture Development Company		Listed joint stock company
	SAVOLA Group - Savola Food Company		Listed joint stock company	National Medical Care Company		Listed joint stock company
				Herfy Food Company		Unlisted company
				Panda Retail Company		Unlisted company

Member name	Names of companies where the Board member is a member of its current Boards or one of its Directors	Inside/ outside the Kingdom	Legal entity (listed joint stock company/ unlisted joint stock company/ limited liability)	Names of companies, in which the Board member is a member of its previous Boards or one of its previous Directors	Inside/ outside the Kingdom	Legal entity (listed joint stock company/ unlisted joint stock company/ limited liability)
Bader bin Mohammed Al Rajhi	Al Rajhi Bank	Inside the Kingdom	Listed joint stock company			
	Mohammed Abdulaziz Al-Rajhi & Sons investment Co		Limited liability company			
	Rajhi Steel		Limited liability company			
	Global Beverage Co		Limited liability company			
	Al Jazirah Co		Limited liability company			
	Falcon Plastic		Limited liability company			
	Manafe Investment Company		Limited liability company			
	Al Badr Al Zaher Investment Company		Limited liability company			
Khaled bin Abdulrahman Al Qoaiz	Al Rajhi Bank	Inside the Kingdom	Listed joint stock company	ACWA Holding Company	Inside the Kingdom	Unlisted company
	Riyadh Cables Group Company		Unlisted company	ASTRA Industrial Group		Listed joint stock company
	Emcor Facilities Management Co		Unlisted company	Samba Financial Group		Listed joint stock company
	Unique Solutions for Chemical Industries (USIC)		Unlisted company	Arab National Bank		Listed joint stock company
	Bawan Company		Listed joint stock company	Swicorp Company		Unlisted company
	Saudi Pharmaceutical Industries & Medical Appliances Corporation (SPIMACO)		Listed joint stock company	Unique Solutions for Chemical Industries (USIC)		Unlisted company
	Synergy Management Consulting Co.		Limited liability company			
Alaa bin Shakib Al Jabiri	Al Rajhi Bank	Inside the Kingdom	Listed joint stock company	SABB	Inside and outside the Kingdom	Listed joint stock company
				Gulf International Bank		Unlisted company
	Medical and Pharmaceutical Services Company		Limited Liability Company	Construction Products Holding Company		Unlisted company
				Rolaco Group		Unlisted company
Ibrahim Fahad Al-Ghofaily	Al Rajhi Bank	Inside the Kingdom	Listed joint stock company	Alinma Bank	Inside the Kingdom	Inside the Kingdom
	Jiwar Real Estate Management, Marketing and Development Company		Unlisted company	Al Rajhi Bank		Inside the Kingdom
Ameen Fahad Al Shiddi	Al Rajhi Bank	Inside and outside the Kingdom	Listed joint stock company	STC Solutions Advanced	Inside and outside the Kingdom	Unlisted company
	STC – Kuwait Telecom Company		Unlisted company	Sale		Unlisted company
	Deutsche Gulf Finance		Unlisted company	Arab Submarine Cables Company Ltd.		Unlisted company
	Oger Telecom Company		Unlisted company	Aqalat Company LLC.		Unlisted company
	STC Towers Co Ltd		Limited liability company	Viva Bahrain Company		Unlisted company
	STC		Listed joint stock company			

Member name	Names of companies where the Board member is a member of its current Boards or one of its Directors	Inside/ outside the Kingdom	Legal entity (listed joint stock company/ unlisted joint stock company/ limited liability)	Names of companies, in which the Board member is a member of its previous Boards or one of its previous Directors	Inside/ outside the Kingdom	Legal entity (listed joint stock company/ unlisted joint stock company/ limited liability)
Hamza bin Othman Khushaim	Al Rajhi Bank	Inside the Kingdom	Listed joint stock company	Dallah Healthcare Holding Company	Inside the Kingdom	Listed joint stock company
	Hassana Investment Company		Unlisted company			
Raed Abdullah Al-Tamimi	Al Rajhi Bank	Inside the Kingdom	Listed joint stock company	Waseel ASP Ltd	Inside the Kingdom	Unlisted company
	Cooperative Insurance Company		Listed joint stock company	Cooperative Insurance Company		Listed joint stock company
	Saudi Public Transport Co.(SAPTCO)		Listed joint stock company	Cooperative Real Estate Company		Unlisted company
	National Gas and Industrialization Co. (GASCO)		Listed joint stock company	Najm for Insurance Services		Unlisted company
				National Medical Care Company		Listed joint stock company
Abdullatif Ali Alseif	Al Rajhi Bank	Inside the Kingdom	Listed joint stock company	HSBC Saudi	Inside and outside the Kingdom	Unlisted company
	Arabian Cement Company		Listed joint stock company			
	Al Ra'idah Investment Company		Unlisted company	Shared Vision Company Ltd		Limited liability company
	National Petrochemical Company PETROCHEM)		Listed joint stock company			
	Wisayah Al Khaleej Investment Company		Limited liability company			

Composition of the Board and classification of its members, as Executive Directors, Non-Executive Directors, or Independent Directors

Member name	Membership classification (Executive/Non-Executive/ Independent)
Abdullah bin Sulaiman Al Rajhi	Non-Executive
Alaa bin Shakib Al Jabiri	Independent
Salah bin Ali Abalkhail	Non-Executive
Abdulaziz bin Khaled Al Ghefaily	Non-Executive
Bader bin Mohamed Al Rajhi	Non-Executive
Khaled bin Abdulrahman Al Qoaiz	Non-Executive
Ibrahim Fahad Al Ghofaily	Independent
Ameen Fahad Al Shiddi	Non-Executive
Hamza bin Othman Khushaim	Non-Executive
Raed bin Abdullah Al-Tamimi	Independent
Abdullatif Ali Al Seif	Independent

Committees of the Board of Directors

The functions and responsibilities of the Committees are laid down in internal guidelines and regulatory requirements. The membership term is three years which ends with the term of the Board. The Board of Directors has the authority to appoint, reappoint or terminate any member of the Committees. The Committees submit their recommendations and the minutes of meetings to the Board of Directors.

A brief description of ARB Committees' competences and functions is given below:

A. Executive Committee

The main purpose of the Executive Committee (ExCom) is to assume the responsibility for all businesses of ARB, taking quick decisions with respect to urgent matters and issues related to the business of the Bank. Also, The Executive Committee will be responsible for the review, follow up and approval of financial and non-financial, commercial, investment and operational matters related to the Bank, within powers determined by the Board of Directors.

The Committee held 13 meetings during 2019 as follows:

		Member name				
Meeting	Date	Abdullah bin Sulaiman Al Rajhi Chairman	Salah bin Ali AbalKhail member	Abdulaziz bin Khaled Al Ghefaily member	Alaa bin Shakib Al Jabiri member	Hamza Othman Khushaim member
1	24 January 2019	√	√	√	X	√
2	6 February 2019	√	√	√	√	√
3	19 March 2019	√	√	√	√	√
4	3 April 2019	√	√	√	√	√
5	24 April 2019	√	√	X	√	X
6	25 June 2019	√	√	√	√	√
7	1 July 2019	√	√	√	√	√
8	8 September 2019	√	√	√	X	√
9	18 September 2019	√	√	√	√	√
10	20 October 2019	√	√	√	√	√
11	26 November 2019	√	√	√	√	√
12	5 December 2019	√	√	√	√	√
13	16 December 2019	√	√	√	√	√

B. Nominations and Compensations Committee

The main purpose of the Nominations and Compensations Committee includes recommending the nomination of Board members, Committee members, and Senior Executives to the Board of Directors, preparing a description of abilities and qualifications required for Board of Directors membership, assessing the effectiveness and efficiency of Board of Directors and Senior Management, ensuring compliance of the Bank with the internal incentive schemes, and rules of incentive practices issued by SAMA, principles and criteria of compensations, in a manner that best achieves the interests of depositors, shareholders and Bank's strategic objectives.

The Committee held four meetings during 2019 as follows:

		Member name			
Meeting	Date	Abdulaziz bin Khaled Al Ghefaily member	Khaled bin Abdulrahman Al Qoaiz member	Alaa bin Shakib Al Jabiri member	Raed bin Abdullah Al-Tamimi member
1	5 December 2019	√	X	√	√
2	11 November 2019	√	√	√	√
3	2 April 2019	√	√	√	√
4	15 January 2019	√	√	√	√

C. Governance Committee

The main purpose of Governance Committee is to support and maintain the implementation of the highest corporate governance standards. This is achieved through several activities conducted by the Committee, on behalf of the Board of Directors, to ensure good governance practices are followed through the Bank's activities. This includes the annual review of the Bank's governance and monitoring cases that present a conflict of interests, ensuring the continuous update of the conflict of interests record, in addition to reviewing exemption requests from the applicable governance requirements at the Bank, and coordinating with the Bank's subsidiaries to support good corporate governance standards that are consistent and harmonized for all ARB activities. The Committees' tasks also include increasing awareness of the importance of governance and its activities in the bank among all employees, shareholders and external stakeholders, conducting an annual review of Board of Directors' performance and the performance of all Board members, Committees and Management Committees. It is also responsible for the review and update of policies related to the Board of Directors and its members, the Bank's governance and the conflict of interests, in addition to following up on the application of the Governance Manual and its appendices and the Bank's matrix of authorities.

The Committee held three meetings during 2019 as follows:

		Member name		
Meeting	Date	Salah bin Ali AbalKhail member	Ibrahim Fahad Al Ghefaily member	Raed bin Abdullah Al-Tamimi member
1	22 January 2019	√	√	√
2	18 April 2019	√	√	√
3	19 December 2019	√	√	√

D. Audit and Compliance Committee

Main responsibilities assigned to the Audit and Compliance Committee include supervising the process of submitting the Bank's Financial Statements, supervising the activities of internal and external Auditors, submitting recommendations to the Board of Directors and shareholders to approve, appoint, decide the remuneration or terminate external Auditors. In addition to reviewing and approving the scope of Audit processes and their implementation, receiving key Audit reports and ensuring that the Senior Management takes the needed corrective measures in a timely manner to address weak controls or incompliance with policies, laws or regulations, or any other issues identified by the Auditors. The Audit and Compliance Committee held nine meetings during 2019, during which it discussed the topics listed in its annual agenda approved by the Board, in addition to other relevant topics. The Audit and Compliance Committee comprises five members – two members from the Bank's Board of Directors and three Non-Executive members.

The below table shows meeting dates and member attendance during the year:

Meeting	Date	Member name: Ameen Fahad Al Shiddi Chairman	Abdul Latif bin Ali Alseif	Abdullah bin Ali Al-Muneef	Farraj bin Mansour Abuthnein	Walid bin Abdullah Tamairik
1	27 January 2019	√	√	√	√	√
2	14 February 2019	√	√	√	√	√
3	14 March 2019	√	√	√	√	√
4	18 April 2019	√	√	√	√	√
5	23 June 2019	√	√	√	√	√
6	25 July 2017	√	√	√	√	√
7	26 September 2019	√	√	√	√	√
8	23 October 2019	√	√	√	√	√
9	22 December 2019	√	√	√	√	√

Audit and Compliance Committee members (other than Board of Directors members)

No.	Name	Committee memberships	Current positions	Previous positions	Qualifications	Experience
1	Abdullah bin Ali Al-Muneef	Audit and Compliance Committee	• Member of Audit and Compliance Committee – Al Rajhi Bank • Member of Shura Council • Member of the Arab Parliament	• Chief Executive Officer – Al Muneef Financial and Management Consultancy Office • Advisor – Saudi Arabian National Guard • Director General of Finance and Administration Affairs –Saudi Arabian National Guard • Head of Accounting Department, King Saud University • Associate Professor of Accounting Department, King Saud University • Executive Director of Financial and Administrative Affairs – King Faisal Specialist Hospital & Research Centre • Head of Accounting Association, King Saud University • Assistant Professor of Accounting Department, King Saud University • Lecturer at Accounting Department, King Saud University	• Bachelor of Accounting – King Saud University • Master Degree in Accounting – University of Southern California, USA • PhD in Accounting – University of South Carolina, USA	Held many academic, leading and advisory positions in financial and management fields
2	Farraj Bin Mansour Abuthnein	Audit and Compliance Committee	• Member of Audit and Compliance Committee – Al Rajhi Bank • Board Member – Astra Industrial Group • Board Member - Al Moammar Information Systems Company • Board Member – Aljazira Capital Company	• Director of Loan Department – Industrial Development Fund • Member of the Project Loan Committee – Industrial Development Fund • Member of the Industrial Projects Performance Audit Committee – Industrial Development Fund • Senior Vice President of Finance and Investment and Region Council member – National Industrialisation Company (Tasnee) Riyadh • Board Member - National Petrochemical Company (PETROCHEM) • Member of Audit Committee – Almarai Company	• Bachelor of Industrial Management – University of Wisconsin – Milwaukee	Held many leading positions in the Saudi Industrial Development Fund and National Industrialisation Company (Tasnee)
3	Walid bin Abdullah Tmairak	Audit and Compliance Committee	• Member of Audit and Compliance Committee –Al Rajhi Bank • Member of Audit Committee - Real Estate Development Fund • Board member – Takamul International Group • Member of Audit Committee – Taajeer Leasing Company • Tmairak Chartered Accountants	• Arthur Andersen & Co • Ernst & Young • Member of Advisory Committee at the College of Management and Economics – King Abdulaziz University	• Bachelor of Accounting – King Abdulaziz University • Fellowship of Saudi Organizationfor Certified Public Accountants (SOCPA	More than 25 years of experience in accounting, auditing and economics

E. Board Risk Management Committee

The purpose of the Board Risk Management Committee is to advice the Board of Directors with respect to the risk appetite and risk strategy, and to supervise the Management's implementation of that strategy. This includes the management of capital and liquidity strategies and credit, market, operational, compliance and reputational risks, as well as any other potential risks the Bank may face.

The Committee held four meetings in 2019, as follows:

Meeting	Date	Member name: Khaled bin Abdulrahman Al Qoaiz, Chairman	Member name: Alaa bin Shakib Al Jabiri, member	Member name: Hamza Othman Khushaim, member
1	10 February 2019	√	√	√
2	2 April 2019	√	√	√
3	22 October 2019	√	√	√
4	15 December 2019	X	√	√

Procedure taken by the Board to inform its members of the shareholders' suggestions and remarks on the Bank and its performance

ARB registers shareholders' suggestions provided through the General Assembly and notifies the Chairman of any other suggestions related to the Bank to be presented at the next Board meeting. In addition, there is an e-mail address dedicated to shareholders' comments and suggestions, that is published on the Bank's and Tadawul websites. The e-mail is directly linked to the Board Secretariat so that the Board could receive shareholders' comments and suggestions.

The methods used to evaluate the Board, Board Committees and members' performance:

The Governance Committee evaluates performance of the Board, Board Committees and Board members via specific surveys on three different levels. Evaluation is based on Board of Directors terms of reference specified in ARB's Governance Manual, while evaluation of Board Committees and the Audit and Compliance Committee is conducted based on their approved charters. Evaluation of Board and Board Committee members is conducted by the respective members themselves, after which the Governance Committee prepares and submits the annual assessment report to the Board of Directors for approval. Finally, a copy of the final report is provided to the Nominations and Compensations Committee.

Remuneration of the Board members and Executive Management

a) Summary of significant items of policy for remunerations of the Board of Directors, Board Committees and Executive Management members

1. Board of Directors' remuneration and compensations:

- ARB's Board members will receive a fixed annual remuneration of SAR 400,000 for their membership in ARB's Board of Directors and their participation in its activities.
- Board member will receive an attendance fee of SAR 5,000 for his attendance of each Board meeting either personally or through electronic remote channels.
- ARB shall compensate Board members for their actual expenses paid to attend the Board meetings including travelling and accommodation expenses.

2. Remuneration and compensations of the Board members for their membership in Board Committees:

- ARB's Board members will not receive an additional remuneration for their membership in ARB's Board Committees as the annual remuneration covers any other remuneration paid to the Director for his/her participation in any Board Committee.
- Board member will receive an attendance fee of SAR 5,000 for his attendance of each Board Committee either personally or through electronic remote channels.
- ARB shall compensate Board members for their actual expenses paid to attend the Committees' meetings including travelling

3. Remuneration and compensations of Audit and Compliance Committee members:

- ARB's Audit and Compliance Committee members, either from inside or outside the Board, will receive a fixed annual remuneration of SAR 150,000 for their membership in the Committee and their participation in its activities, provided that annual remuneration for Audit and Compliance Committee member from inside the Board shall not exceed the annual limits of annual remunerations and compensations granted to the Board member.
- Audit and Compliance Committee members will receive an attendance fee of SAR 5,000 for his attendance of each Committee meeting either personally or through electronic remote channels.
- ARB shall compensate Committee members for their actual expenses paid to attend the Board meetings including travelling and accommodation expenses.

4. Granting shares:

- ARB does not grant shares as remuneration for any Board member, Board Committee and Audit Compliance Committee members.

5. Allocation and payment mechanisms for remuneration and compensation:

- Remuneration and compensation for Board members and Non-Board members will be allocated annually based on recommendation from Nomination and Compensation Committee and approval of Board, amounts will then be presented to the next General Assembly meeting for ratification.
- Remuneration can vary to reflect the Director's experience, independence and number of attended meetings among other criteria.
- Attendance fees are paid annually to Directors based on their attendance sheets for Board, Board Committees, and Audit and Compliance Committee meetings.
- Payments are done through bank transfers, cheques, or any other methods, and Directors are informed of details through relevant departments.
- Remuneration and Compensations paid to directors should not exceed SAR 500,000 annually, payment of any additional due amounts will be stopped. Total amounts paid to Directors should not exceed 5% of total net profits.

6. Remuneration and compensation of Senior Executives:

The role of the Board of Directors includes, but is not limited to, the following:

- The Board of Directors is responsible for approving the overall design and oversight of all aspects of the remuneration system and shall not delegate this responsibility to management.
- Despite the establishment of the Board Nomination and Compensation Committee, the Board of Directors shall be ultimately responsible for promoting effective governance and sound remuneration practices.
- The Board of Directors shall review and, if satisfied, approve the Remuneration Policy and any of its subsequent revision/updates, on the recommendation of the Nomination and Compensation Committee, taking into account, inter-alia, the Rules on Compensation Practices of May 2010 and any future updates or revisions issued by Saudi Arabian Monetary Agency (SAMA).
- The Board of Directors shall review and, if satisfied, approve the recommendations of the Nomination and Compensation Committee regarding the level of remuneration of the key executives. The key executives for this purpose will include senior managers and all those executives whose appointments are subject to no objection by SAMA or other regulators.
- The Board of Directors shall ensure that the Management has put in place elaborate systems and procedures and an effective oversight mechanism to ensure compliance of the SAMA Rules on Compensation Practices and the Financial Stability Board Principles and Standards.

7. Structure of remuneration and compensation granted to Senior Executives:

- The Remuneration structures for various levels of employees should be designed to promote effective risk management and achieve remuneration and compensation objectives.
- The mix of forms of remuneration should vary depending on the employee's position and role, and may include cash, equity and other forms of compensation.
- The proportion of fixed and variable components of remuneration for different business lines may be determined taking into account the nature and level of responsibilities of an employee, business area in which he/she is working and the overall philosophy of the Remuneration Policy of the Bank. The Bank should ensure that the total variable remuneration does not limit its ability to strengthen the capital base.
- The remuneration structure of employees working in control functions such as risk management, compliance, internal control, etc. Should be designed to ensure objectivity and independence of these functions. In this regard, it should be ensured that performance management and determination of remuneration of such employees are not dealt with by any person working in/associated with the business areas monitored by them.
- The determination of the bonus pool should consider the overall performance of the Bank whereas its distribution to individual employees should be based on performance of the employees as well as that of the business unit or division

in which he/she is working. There should, however, be no guaranteed minimum bonuses and similar other payments, other than an employee's salary, that are not based on performance.

- The Bank may as part of the Remuneration Policy, provide deferment of a reasonable proportion of performance bonus with a minimum vesting period of not less than three years. The proportion of the bonus to be deferred and the vesting period should be determined based on the nature of the business, its risks and the activities of the concerned employee.
- Where the Remuneration Policy provides for payment of a part of the compensation in shares, it should also lay down the criteria to be used for determining the value for allocation of shares. Furthermore, the payouts in shares should be subject to an appropriate share retention policy.
- Joining bonuses are not permitted, unless clearly aligned with long-term value creation and prudent risk taking. Any such payments should be related to performance achieved over time and designed in a way that does not reward failure. Joining bonuses should be at least linked to successful completion of probation period and where possible, deferring the joining bonuses, on terms similar to the deferred bonuses foregone from the previous company.
- The Bank should demand from their employees that they commit themselves not to use personal hedging strategies or remunerations and liability-related insurance to undermine the risk alignment effects embedded in their remuneration and compensation arrangements.

The Bank confirms that there are no major deviations between granted remunerations and applicable remunerations policy.

B) Remuneration and compensation paid to the Board members, Board Committees, Audit and Compliance Committee in 2019

		Board meetings		BACC meetings		ExCom Meetings		NCC meetings			Governance Committee meetings		BRMC meetings		Special Committees		Annual Bonus	Total (Saudi Riyal)	Total paid to the member as per the Policy (Saudi Riyal)
No.	Name	No	amount	No	amount	No	amount	No	amount		No	amount	No	amount	No	amount			
1	Abdullah bin Sulaiman Al Rajhi	6	30.000	-	-	13	65.000	-	-		-	-	-	-	-	-	400,000	495.000	495.000
2	Salah bin Ali AbalKhail	6	30.000	-	-	13	65.000	-	-		3	15.000	-	-	-	-	400,000	510.000	500.000
3	Abdulaziz bin Khaled A Al Ghefaily	6	30.000	-	-	12	60.000	4	20.000		-	-	-	-	-	-	400,000	510.000	500.000
4	Khaled bin Abdulrahman Al Qoaiz	6	30.000	-	-	-	-	3	15.000		-	-	3	15.000	-	-	400,000	460.000	460.000
5	Bader bin Mohammed Al Rajhi	6	30.000	-	-	-	-	-	-		-	-	-	-	1	5.000	400,000	435.000	435.000
6	Alaa bin Shakib Al Jabiri	6	30.000	-	-	11	55.000	4	20.000		-	-	4	20.000	-	-	400,000	525.000	500.000
7	Ibrahim Fahad Al-Ghofaily	6	30.000	-	-	-	-	-	-		3	15.000	-	-	-	-	400,000	445.000	445.000
8	Raed Abdullah Al-Tamimi	6	30.000	-	-	-	-	4	20.000		3	15.000	-	-	-	-	400,000	465.000	465.000
9	Hamza bin Othman Khushaim	6	30.000	-	-	12	60.000	-	-		-	-	4	20.000	1	5.000	400,000	510.000	500.000
10	Ameen bin Fahad Al Shiddi	6	30.000	9	45.000	-	-	-	-		-	-	-	-	-	-	550,000	625.000	625.000
11	Abdullatif Ali Alseif	6	30.000	9	45.000	-	-	-	-		-	-	-	-	1	5.000	550,000	630.000	630.000
12	Abdullah bin Ali Al-Muneef	-	-	9	45.000	-	-	-	-		-	-	-	-	-	-	150,000	195.000	195.000
13	Walid bin Abdullah Tmairak	-	-	9	45.000	-	-	-	-		-	-	-	-	-	-	150,000	195.000	195.000
14	Farraj BinMansour Abuthnein	-	-	9	45.000	-	-	-	-		-	-	-	-	-	-	150,000	195.000	195.000
	TOTAL	**66**	**330.000**	**45**	**225.000**	**61**	**305.000**	**15**	**75.000**		**9**	**45.000**	**11**	**55.000**	**3**	**15.000**	**5.150.000**	**6.195.000**	**6.140.000**

C) Remunerations and compensations paid to five Senior Executives who have received highest remunerations from the Company including CEO and CFO in 2019

Description	Five Senior Executives (CEO and CFO Included)
Salaries and compensations	9,982,742
Allowances	5,128,018
Periodic and annual rewards	45,570,573
Incentives schemes	–
Any other in-kind compensations or benefits paid annually or monthly	–
Total	**60,681,333**

Employee Benefits and Plans
The Bank provides its employees with several benefits which are paid during or at the end of their service according to Saudi Labor Law and Bank policies. The provision for employees' end of service benefits is accrued using accrual valuation according to Saudi Labor Law and local regulatory requirements. The provision for end of service benefits stood at SAR 980 million.

The Bank also grants free shares to its senior employees and those of its subsidiary companies who are seen as valuable human assets that need to be retained, which helps ensure the long-term relationship with those employees. Granting of shares is subject to the approval of the Board of Directors upon the recommendation of the Nomination and Remuneration Committee.

Any penalty, precautionary measure or legal binding imposed on the Bank by CMA or any other supervisory, regulatory, judicial authority

There are no official fines imposed by CMA

Fines imposed by SAMA:

	Fiscal Year 2018		Fiscal Year 2019	
Violation of	Number of resolutions	Total amount of fines in Saudi Riyal	Number of resolutions	Total amount of fines in Saudi Riyal
SAMA supervisory instructions	34	2,315,000	41	30,403,500
SAMA instructions related to customer protection	–	–	14	170,000
SAMA instructions related to due-diligence	–	–	3	262,500
SAMA instructions related to service level of ATMs and POSs	–	–	–	–
SAMA instructions related to due diligence in AML and TF	3	450,000	–	–

Fines imposed by Ministry of Municipal and Rural Affairs:

	Fiscal Year 2018	Fiscal Year 2019
Violation of	Total amount of fines in Saudi Riyal	Total amount of fines in Saudi Riyal
Increase of building area percentage for ATMs, lack of setbacks,visible advertising posters on branches facades and ATMs, and non-existence of licenses for some bank's locations.	1,588,000	1,717,000

Outcomes of the annual review of internal control procedures at the Bank, in addition to the Audit and Compliance Committee's opinion on the adequacy of the Bank's internal control system.
The Bank's Executive Management is responsible for designing an appropriate internal control system with the Board of directors' direct supervision. The system has been designed to directly mitigate risks that could impair the realization of the Bank's strategic and operational objectives. The Bank's Executive Management has adopted a comprehensive internal control system aligned with SAMA's regulatory requirements. The following are some of the key components of the Bank's internal control system:

- The Bank has completed and approved ongoing development of the governance framework, which is the mandate for preparing and updating proper control tools on the Bank level, and defining roles and responsibilities at the Bank's different levels including the Board of Directors, Board committees and other committees.
- The Bank has a set of policies and procedures that govern its business activities, which are subject to a periodic review to ensure its completeness, efficiency and alignment with the Bank's activities.
- Most of the Bank's operations are carried out automatically through different core systems, which minimizes manual errors and fraud opportunities.
- Oversight of the Bank's activities and taking important decisions through committees formed to ensure that the Bank's activities are carried out appropriately in order to safeguard the Bank's assets.
- The Bank has dedicated specialized functions on evaluating the effectiveness of the its internal control systems, which include internal audit, compliance, anti-fraud and other risks management functions.
- Existence of an effective Audit and Compliance Committee supervising internal and external Auditors activities in order to support and promote their independence. This Committee receives regular and periodic reports on audits carried out on different functions within the Bank.
- Regular reviews on the efficiency and adequacy of the internal control system is carried out by Internal Audit based on an annual plan approved by the Audit and Compliance Committee, in addition to reviews of the effectiveness of internal control by the external Auditors and supervisory reviews conducted by the Saudi Arabian Monetary Authority (SAMA).

Annual review of internal control procedures

During 2019, the Bank explored all possible efforts to ensure the appropriateness and effectiveness of internal control in order to be in line with the requirements of internal control issued by SAMA. Furthermore, the Bank's activities carried out during the year 2019, which included a review of the effectiveness of internal controls systems contributed to providing reasonable confirmation of the appropriateness of applied internal controls, in addition to confirming the existence of necessary tools, systems and procedures to identify, assess and mitigate potential high risks the Bank may face, and how to address them. As a result, no material weaknesses have been identified that could negatively impact the appropriateness of the internal control system. Based on the outcomes of assessing the Bank's internal controls effectiveness, the Bank has an adequate internal control system that operates appropriately and is being reviewed on a continues basis. It should be noted that despite having an internal control system, regardless of its design and effectiveness, no absolute assurance can be provided on the effectiveness of internal controls.

General Assembly

The Bank always adheres to the concerned Government regulations in all matters relating to Ordinary and Extraordinary General Assemblies. All regulatory provisions are accompanied by sufficient information to enable shareholders to make their decisions.

Historical information of General Assembly meetings during the fiscal year:

no	Name	Attendance record Ordinary GM no. 13 on 3 April 2019
1.	Abdullah bin Sulaiman Al Rajhi	√
2.	Salah bin Ali AbalKhail	√
3.	Alaa bin Shakib Al Jabiri	√
4.	Khaled bin Abdulrahman Al Qoaiz	√
5.	Ameen bin Fahad Al Shiddi	√
6.	Bader bin Mohammed Al Rajhi (Representative of Mohammed Abdulaziz Al Rajhi & Sons Investment Co.)	√
7.	Abdullatif Ali Alseif (Representative of Public Pension Agency)	√
8.	Hamza bin Othman Khushaim (Representative of GOSI)	√
9.	Abdulaziz bin Khaled Al Ghefaily	√
10.	Raed bin Abdullah Al-Tamimi	√
11.	Ibrahim bin Fahad Al-Ghofaily	√

Bank's significant plans, decisions and future expectations

ARB maintains its leading position in retail as its market share represents 37.6% of total retail loans granted in Q3 2019. The Bank intends to enhance its leadership in this sector by increasing its finance portfolio in general and real estate finance in particular. The Bank also intends to initiate investment in the latest technologies to ensure providing the best banking services and products as well as expanding customer base by expanding branch network and electronic banking channels.

Bank's dividend distribution policy

The Bank distributes the specified annual net profits, after deduction of all general expenses and other costs and arranging the necessary provisions to confront doubtful debts, investment losses and urgent commitments for which the Board of Directors evaluates the risk level under the Banking Control Law and Saudi Arabian Monetary Authority (SAMA) directions as follows:

a. The due Zakat amounts scheduled to be paid by shareholders are calculated and the Bank pays such amounts to competent authorities.

b. The Bank transfers no less than 25% of the remaining net profits to the following year after deducting the Zakat of the statutory reserve to ensure that the mentioned reserve becomes equal–at least–to the paid capital.

c. Of the remaining profits, no less than 5% of the paid capital after deducting the statutory reserves and Zakat to be distributed to shareholders according to recommendations of the Board of Directors and decisions of the General Assembly. If the percentage left from the profits due to shareholders is insufficient to pay the above-mentioned percentage, the shareholders may not claim to pay it during the next year(s) and the General Assembly may not decide to distribute a percentage of profit greater than the one proposed by the Board of Directors.

d. After allocating the amounts mentioned in items (a), (b) and (c); the remaining amount will be used according to the recommendation of the Board of Directors and the decision of the General Assembly

Profits distributed during the year	21 July 2019	Percentage of profits to be distributed at the end of the year	Total profits
Percentage	15%	15%	30%
Total	**3,750,000**	**3,750,000**	**7,500,000**

Description of any interest of Board members, Senior Executives, their spouses and minor children in the Bank's securities or those of its subsidiaries:

A) Major shareholders

No.	Holder of interest, contractual papers and subscription rights	Number of shares at the beginning of year 2019	* Number of shares at the end of year 2019	Net change	Change %	Ownership %
1.	General Organization of Social Insurances	165,667,525	146,623,115	(19,044,410)	-11.50	5.86

*17 shares have been granted against every 13 owned shares to reflect the increase of the Bank's capital, based on the approval of the 13th Extraordinary General Assembly held on 3 April 2019

B) Board of Directors' members

No.	Holder of interest, contractual papers and subscription rights	Number of shares at the beginning of year 2019	* Number of shares at the end of year 2019	Net change	Change %
1.	Abdullah bin Sulaiman Al Rajhi	35,221,483	54,186,896	18,965,413	53.85
2.	Salah bin Ali AbalKhail	1,470,000	2,300,000	830,000	56.46
3.	Abdulaziz bin Khaled Al Ghefaily	25,000	34,460	9,460	37.84
4.	Bader bin Mohammed Al Rajhi	5,207	175,233	170,026	3,265.34
5.	Khaled bin Abdulrahman Al Qoaiz	1,000	14,615	13,615	1,361.50
6.	Alaa bin Shakib Al Jabiri	6,000	3,846	(2,154)	-35.90
7.	Ibrahim Fahad Al-Ghofaily	459,981	725,842	265,861	57.80
8.	Raed Abdullah Al-Tamimi	1,000	1,538	538	53.80
9.	Abdullatif Ali Alseif	40,000	61,538	21,538	53.85
10.	Hamza Othman Khushaim	–	–	–	0.00
11.	Ameen Fahad Al Shiddi	–	–	–	0.00

*17 shares have been granted against every 13 owned shares to reflect the increase of the Bank's capital, based on the approval of the 13th Extraordinary General Assembly held on 3 April 2019

C) Senior Executives

No.	Holder of interest, contractual papers and subscription rights	Number of shares at the beginning of year 2019	* Number of shares at the end of year 2019	Net change	Change %
1.	Abdulrahman Abdullah Al Fadda	2,938	3,000	62	2.11
2.	Saleh Abdullah Allhehedan	7,577	25,000	17,423	229.95
3.	Abdullah Sulaiman Al Nami	1,293	100,000	98,707	7633.95
4.	Majid Abdulrahman Algwaiz	3,322	0	(3,322)	-100.00
5.	Christopher Mark Macleen	9,204	32,923	23,719	257.70
6.	Abdulaziz Sa'ad Al Resais	Appointed on 18 August 2019	10,000	-	-
7.	Abdullah Ali Alkhalifa	10,228	Left on 5 December 2019	-	-
8.	Khaled Fahad Alhozaim	7,579	Left on 30 April 2019	-	-

*17 shares have been granted against every 13 owned shares to reflect the increase of the Bank's capital, based on the approval of the 13th Extraordinary General Assembly held on 3 April 2019

Board of Directors' sessions

		Number of meetings: six (6)					
No.	Director name	First meeting 6 February 2019	Second meeting 3 April 2019	Third meeting 25 June 2019	Fourth meeting 20 October 2019	Fifth meeting 21 October 2019	Sixth meeting 16 December 2019
1.	Abdullah bin Sulaiman Al Rajhi	√	√	√	√	√	√
2.	Salah bin Ali AbalKhail	√	√	√	√	√	√
3.	Abdulaziz bin Khaled Al Ghefaily	√	√	√	√	√	√
4.	Bader bin Mohammed Al Rajhi	√	√	√	√	√	√
5.	Khaled bin Abdulrahman Al Qoaiz	√	√	√	√	√	√
6.	Alaa bin Shakib Al Jabiri	√	√	√	√	√	√
7.	Ibrahim Fahad Al-Ghofaily	√	√	√	√	√	√
8.	Ameen Fahad Al Shiddi	√	√	√	√	√	√
9.	Hamza Othman Khushaim	√	√	√	√	√	√
10.	Raed Abdullah Al-Tamimi	√	√	√	√	√	√
11.	Abdullatif Ali Alseif	√	√	√	√	√	√

Bank requests for shareholders' register

No.	Request date	Request reasons
1	1 January 2019	Updating shareholders records
2	9 January 20192	Updating shareholders records
3	30 January 2019	Updating shareholders records
4	28 February 2019	Updating shareholders records
5	30 April 2019	Updating shareholders records
6	9 June 2019	Updating shareholders records
7	23 July 2019	Updating shareholders records
8	25 July 2019	Dividends distribution for H1 2019
9	4 August 2019	Updating shareholders records
10	2 September 2019	Updating shareholders records
11	1 October 2019	Updating shareholders records
12	31 October 2019	Updating shareholders records
13	1 December 2019	Updating shareholders records
14	11 December 2019	Updating shareholders records

Related party transactions

In the ordinary course of business, the Bank transacts business with related parties. The related party transactions are governed by the regulations issued by the regulators in the Kingdom of Saudi Arabia. The Bank has disclosed such transactions in Note (30) of its closing Financial Statements for the year 2019. The nature and balances resulting from such transactions for the year ended 31 December 2019 are as follows (all amounts are in thousand Saudi Riyals):

Type of Transaction	Balances resulting from the transaction
Loans and advance payments	7,311,890
Potential obligations	877,178
Current accounts	320,580
Contribution receivables	142,152
Debtors against liabilities	194,312
Banks' balances	332,713
Income from financing and other income	135,422
Speculation (Mudaraba) fees	79,316
Employees' salaries and benefits (airlines tickets)	4,297
Building rentals and expenses	5,521
Contributions – policies written	861,880
Incurred and reported claims during the year	662,212
Paid claims	615,901
Board members remunerations	6,140
Short-term benefits	99,533
End of service provision	10,669

Information of 2019 transactions and contracts in which the Bank is a party and any of Board members or senior executives, or any of their related parties has an interest:

1. Commercial and services contracts (Figures in Saudi Riyal)

No.	Related Party	Party with direct indirect interest	Position in ARB	Type of relation with related party	Relation type	Period	Conditions	Transactions/ Contracts amount for 2019
1.	Fursan Travel & Tourism Co	Abdullah bin Sulaiman Al Rajhi	Board member	Owned by Board Member	Airlines tickets for Employees' contract	Price contract for four years	Standard conditions without preferences	4,471,559
2.	STC	Ameen Fahad Al Shiddi	Board member	Senior executive	Strategic agreement to provide integrated smart ICT services and solutions	Price contract for five years	Standard conditions without preferences	56,855,966
3.	STC	Ameen Fahad Al Shiddi	Board member	in the company	Contract and services for connecting PoS devices to network	Price contract for six years	Standard conditions without preferences	421,491
4.	STC	Ameen Fahad Al Shiddi	Board member	Senior executive	Communication services provision agreement	Two years and nine months	Standard conditions without preferences	998,920
5.	STC	Ameen Fahad Al Shiddi	Board member	in the company	Integrated communications services and solutions contract	Price contract for three years	Standard conditions without preferences	163,873,018
6.	STC	Ameen Fahad Al Shiddi	Board member	Senior executive	Provision of general services such as (communication, mobiles, call center)	One year	Standard conditions without preferences	32,560,532
7.	Arabian Internet and Telecom Services (STC Solutions)	Ameen Fahad Al Shiddi	Board member	He has an influence on company's decisions as he is a senior executive in the parent company (STC)	Internet services contract	Two years	Standard conditions without preferences	1,960,857
8.	Arabian Internet and Telecom Services (STC Solutions)	Ameen Fahad Al Shiddi	Board member	He has an influence on company's decisions as he is a senior executive in the parent company (STC)	Supply, installation and maintenance of devices Dell-EMC contract	Three years	Standard conditions without preferences	21,613,740
9.	Global Beverage Holding Company	Bader bin Mohammed Al Rajhi	Board member	Board Chairman	Bottled water supply services	Annual contract (as per the best quotation)	Standard conditions without preferences	557,761
10.	Thiqah Business Services Company	Abdulaziz bin Mohammad Al Shoshan	Senior executive	Senior executive and member of the Audit Committee	Trade register inquiry services (Watheq)	Price contract for four years	Standard conditions without preferences	1,248,017

2. Rental contracts (Figures are in Saudi Riyal)

No.	Related Party	Party with direct indirect interest	Position in ARB	Type of relation with related party	Relation type	Period	Conditions	Transactions/ Contracts amount for 2019
1.	Mohammed Abdulaziz Al Rajhi & Sons Investment Co.	Bader bin Mohammed Al Rajhi	Board member	Company's Board Chairman	Southern region management building rent contract	Seven years – automatically renewable for similar period	Rent contract	260,444
2.	Mohammed Abdulaziz Al Rajhi & Sons Investment Co.	Bader bin Mohammed Al Rajhi	Board member	Company's Board Chairman	Contract for renting direct sales office in Abha	Seven years – automatically renewable for similar period	Rent contract	42,525
3.	Mohammed Abdulaziz Al Rajhi & Sons Investment Co.	Bader bin Mohammed Al Rajhi	Board member	Company's Board Chairman	ATM site rent contract	Five years – automatically renewable for similar period	Rent contract	39,375
4.	Abdullah bin Sulaiman Al Rajhi	-	-	Bank Board member	Albatha'a exchange & remittance center rent contract	One year – automatically renewable for similar period	Rent contract	577,500
5.	STC	Ameen Fahad Al Shiddi	Board member	A senior executive in the company	ATM site rent contract	Two years – automatically renewable for similar period	Rent contract	34,650
6.	STC	Ameen Fahad Al Shiddi	Board member	A senior executive in the company	ATM site rent contract	Three years – automatically renewable for similar period	Rent contract	34,650
7.	Mohammed Ibraheem Alsubeaei Company	Ahmad Saleh Al Sudais	Senior executive	Board member in the company	Al Khaldiyya District remittance center rent contract	Five years – automatically renewable for similar period	Rent contract	207,900

3. Insurance contracts

No.	Related Party	Party with direct indirect interest	Position in ARB	Type of relation with related party	Relation type	Period	Conditions	Transactions/ Contracts amount for 2019
1.	Al Rajhi Co. for Cooperative Insurance	Abdullah bin Sulaiman Al Rajhi	Board member	Company's Board Chairman	Comprehensive insurance for banks, properties, work disruption, managers and executives	Annual contracts	Standard conditions without preferences	81,284,000
		Saleh bin Abdullah Alzumaie	Senior executive	Board Chairman at the company				
		Saleh Abdullah Allehedan	Senior executive	Board Chairman at the company				
2.	Al Rajhi Co. for Cooperative Insurance	Abdullah bin Sulaiman Al Rajhi	Board member	Company's Board Chairman	Comprehensive insurance for cars	Annual contracts	Standard conditions without preferences	780,596,000
		Saleh bin Abdullah Alzumaie	Senior executive	Board Chairman at the company				
		Saleh Abdullah Allehedan	Senior executive	Member of the Sharia Board				

Statutory payments

The Bank's regulatory payments during the year consisted of Zakat due by shareholders, taxes, amounts paid to the General Organization for Social Insurance (GOSI), Visa and Passport costs etc.

Details of payments made during the year are given below:

	2019			
Description	**Paid**	**Payable until the end of the financial period (not paid)**	**Brief description**	**Reasons**
Zakat	1,808,232,526	–	Paid	–
Taxes	47,787,615.58	–	Paid	–
Value added tax (VAT)	142,273,287.23	–	Paid	–
General Organization for Social Insurance (GOSI)	251,157,100.00	–	Paid	–
Labor license & employee levy	2,471,875.73	–	Paid	–
Visas Payment	173,800	–	Paid	–
Passport Payment	280,150	–	Paid	–

Books of Accounts

The Bank prepares the Consolidated Financial Statements in accordance with the Accounting Standards for Financial Institutions published by SAMA and the International Financial Reporting Standards (IFRS). The Bank also prepares its Consolidated Financial Statements to comply with the requirements of Banking Control Law and the Companies Law in the Kingdom of Saudi Arabia, as well as the Bank's Articles of Association.

Basel 3

Certain qualitative and quantitative disclosures are published by ARB. These disclosures are available in the Annual Basel Report and are available on the Bank's website (www.alrajhibank.com.sa).

Auditors

During the Ordinary General Assembly of shareholders, PricewaterhouseCoopers and KPMG Al Fozan and Partners were designated as Auditors of the Bank's accounts for the fiscal year 2019. The next General Assembly will designate the External Auditors for the fiscal year 2020, based on a recommendation from the Audit and Compliance Committee in this regard.

The Board of Directors has not recommended replacing the External Auditors before the end of their contract.

Board of Directors' Acknowledgments

According to the available information, Auditor's report, and current market data, the Board of Directors acknowledge the following:

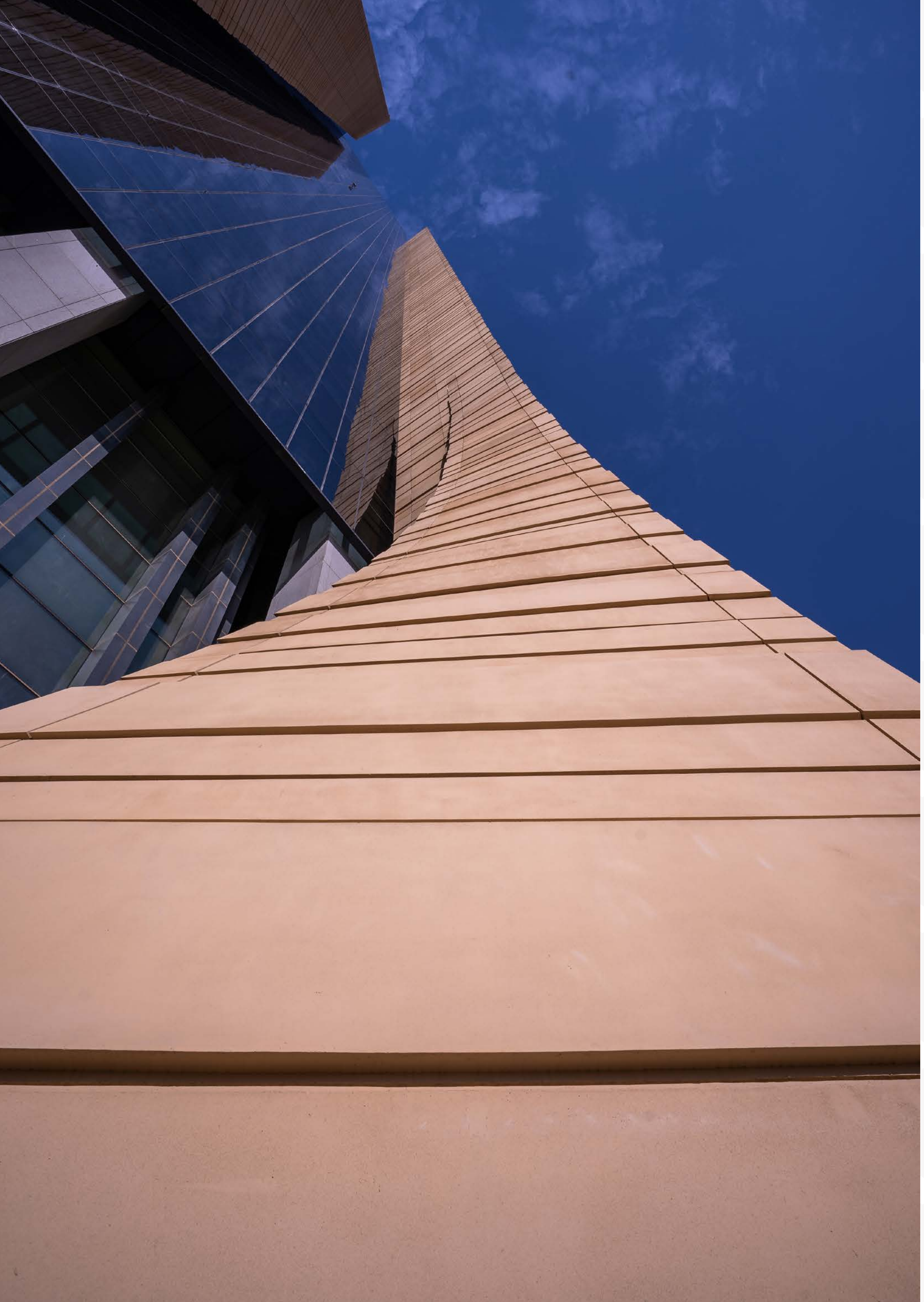
- Accounting records have been prepared properly.
- The Internal control system has been based on proper fundamentals and executed effectively.
- There is no doubt about the Bank's ability to continue its business.

Conclusion

The Board of Directors is pleased to express their pride in the positive results achieved by the Bank in 2019. On this occasion, the Board would like to convey its appreciation to the Custodian of the Two Holy Mosques, Crown Prince, and our wise Government.

The Board would also like to express its sincere appreciation to the Ministry of Finance, Ministry of Commerce and Investment, Saudi Arabian Monetary Authority (SAMA) and the Capital Market Authority (CMA) for their consistent cooperation and ongoing support in developing the banking sector, which plays a great role in the reinforcement and growth of the national economy.

The Board would also like to seize this opportunity to express its gratitude and appreciation to the honorable shareholders, customers and correspondents for their support, trust and cooperation, which has led to the achievement of further advancement and prosperity for the Bank. Last but not least, the Board would like to present its sincere appreciation to all the Bank employees for their dedicated efforts and devotion in accomplishing their obligations and tasks. In addition, the Bank extends its appreciation to Sharia Board members for their loyal efforts and effective contributions to the Bank's business.



04

Financial Statements

Independent Auditors' Report

Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of Al Rajhi Banking and Investment Corporation (A Saudi Joint Stock Company)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Al Rajhi Banking and Investment Corporation (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with 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") (collectively referred to as "IFRS as endorsed in KSA").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the 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 for 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 the key audit matter below, a description of how our audit addressed the matter is provided in that context:

Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of Al Rajhi Banking and Investment Corporation (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
Impairment of financing As at 31 December 2019, the gross financing assets of the Group were SAR 256,702.4 million, against which a credit impairment allowance of SAR 7,019.6 million was maintained. We considered impairment of financing as a key audit matter, as the determination of expected credit loss ("ECL") involves signficant management judgment, and this has a material impact on the consolidated financial statements of the Group. The key areas of judgment include: ➢ Categorisation of financing into Stages 1, 2 and 3 based on identification of: (a) exposures with a significant increase in credit risk ("SICR") since their origination; and (b) individually impaired / default exposures. ➢ Assumptions used in the ECL model for determining probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"), including but not limited to assessment of the financial condition of the counterparty, expected future cash flows and forward-looking macroeconomic factors.	▪ We have obtained an understanding of management's process of determination of impairment of financing as per IFRS 9, the Group's internal rating model, impairment allowance policy and the ECL modelling methodology. ▪ We compared the Group's impairment allowance policy and ECL methodology with the requirements of IFRS 9. ▪ We assessed the design and implementation, and tested the operating effectiveness of controls over: ➢ the modelling process, including governance over monitoring of the model and approval of key assumptions; ➢ the classification of borrowers in various stages and timely identification of SICR and determination of default / individually impaired exposures; and ➢ the integrity of data inputs into the ECL model. ▪ We assessed the Group's criteria for determination of SICR, identification of impaired / default exposures and their classification into various stages.

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Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of Al Rajhi Banking and Investment Corporation (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
Impairment of financing (continued)	
➢ Qualitative adjustments to reflect current or future external factors that might not be captured by the ECL models. ➢ Disclosures relating to IFRS 9 and the related disclosures of IFRS 7. *Refer to note 2d)i) which contains the disclosure of critical accounting judgments, estimates and assumptions; note 7-2 which contains the disclosure of impairment against financing; and note 27-1a) for details of credit quality analysis and key assumptions and factors considered in the determination of ECL.*	▪ For a sample of customers, we assessed: ➢ the internal ratings determined by the management based on the Group's internal rating model, and compared with the ratings used in the ECL model; ➢ the staging as identified by management; and ➢ management's computations of ECL. ▪ We assessed the reasonableness of underlying assumptions, including forward-looking assumptions, used by the Group in the ECL model. ▪ Where overlays to model-driven ECL were used, we assessed those overlays and the governance process around such overlays. ▪ We tested the completeness and accuracy of data underlying the ECL calculations as at 31 December 2019. ▪ Where relevant, we involved specialists to assist us in reviewing model calculations. ▪ We assessed the adequacy of disclosures included in the consolidated financial statements.

Other Information included in the Group's 2019 Annual Report

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

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

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Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of Al Rajhi Banking and Investment Corporation (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Other Information included in the Bank's 2019 Annual Report (continued)

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 on the Audit of the Consolidated Financial Statements to the Shareholders of Al Rajhi Banking and Investment Corporation (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 judgment and maintain professional skepticism throughout the audit. We also:

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the 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 the Group's audit. We remain jointly responsible for our audit opinion.

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

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

Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of Al Rajhi Banking and Investment Corporation (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 for the year ended 31 December 2019 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Based on the information that has been made available to us, nothing has come to our attention that causes us to believe that the Group 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.

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Certified Public Accountant
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Ernst & Young

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Rashid S. Al Rashoud
Certified Public Accountant
License No. 366

25 Jumada Thani 1441H
(19 February 2020)

Consolidated Statement of Financial Position

As at 31 December 2019 and 2018

	Notes	2019 (SAR'000)	2018 (Restated note 37) (SAR'000)
ASSETS			
Cash and balances with Saudi Arabian Monetary Authority ("SAMA") and other central banks	4	39,294,099	43,246,043
Due from banks and other financial institutions, net	5	32,058,182	32,387,760
Investments, net	6	46,842,630	43,062,565
Financing, net	7	249,682,805	231,758,206
Property and equipment, net	8	10,407,247	8,649,435
Investment properties, net	9	1,383,849	1,297,590
Other assets, net	10	4,417,764	3,629,245
TOTAL ASSETS		**384,086,576**	**364,030,844**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	11	2,219,604	7,289,624
Customers' deposits	12	312,405,823	293,909,125
Other liabilities	13	18,269,492	14,526,229
Total liabilities		**332,894,919**	**315,724,978**
Shareholders' equity			
Share capital	14	25,000,000	16,250,000
Statutory reserve	15	21,789,632	16,250,000
Other reserves	15	(216,041)	(349,555)
Retained earnings		868,066	12,499,171
Proposed gross dividends	23	3,750,000	3,656,250
Total shareholders' equity		**51,191,657**	**48,305,866**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**384,086,576**	**364,030,844**

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

Chairman   Chief Executive Officer   Chief Financial Officer

Consolidated Statement of Income

For the years ended 31 December 2019 and 2018

	Notes	2019 (SAR'000)	2018 (Restated note 37) (SAR'000)
INCOME			
Gross financing and investment income	17	16,962,583	14,993,709
Return on customers', banks' and financial institutions' time investments	17	(534,860)	(506,724)
Net financing and investment income	**17**	**16,427,723**	**14,486,985**
Fee from banking services, net	18	1,987,367	1,867,034
Exchange income, net		774,096	755,804
Other operating income, net	19	295,278	209,695
Total operating income		**19,484,464**	**17,319,518**
EXPENSES			
Salaries and employees' related benefits	20	2,794,046	2,809,449
Rent and premises related expenses		-	314,567
Depreciation and amortization	8	1,059,582	603,136
Other general and administrative expenses	21	2,532,213	1,925,518
Total operating expenses before impairment charge		**6,385,841**	**5,652,670**
Impairment charge for financing and other financial assets, net	7	1,772,265	1,530,946
Total operating expenses		**8,158,106**	**7,183,616**
Income before Zakat		**11,326,358**	**10,135,902**
Zakat for the year	2 & 37	(1,167,831)	(6,367,949)
NET INCOME FOR THE YEAR		**10,158,527**	**3,767,953**
Basic and diluted earnings per share (in SAR)	22 & 37	4.06	1.51

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

Chairman   Chief Executive Officer   Chief Financial Officer

Consolidated Statement of Comprehensive Income

For the years ended 31 December 2019 and 2018

	Notes	2019 (SAR'000)	2018 (Restated Note 37) (SAR'000)
Net income for the year		**10,158,527**	**3,767,953**
Other comprehensive income			
Items that cannot be reclassified to consolidated statement of income in subsequent periods			
Net change in fair value of investments held at fair value through other comprehensive income ("FVOCI Investments")	15	178,773	(49,798)
Re-measurement of employees' end of service benefits liabilities ("ESOB")	15 & 25	(51,630)	-
Items that can be reclassified to consolidated statement of income in subsequent periods			
Exchange difference on translation of foreign operations	15	6,371	(52,637)
Total comprehensive income for the year		**10,292,041**	**3,665,518**

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

Chairman

Chief Executive Officer

Chief Financial Officer

Consolidated Statement of Changes in Shareholders' Equity

For the years ended 31 December 2019 and 2018

	Notes	Share capital (SAR'000)	Statutory reserve (SAR'000)	Other reserves (SAR'000)	Retained earnings (SAR'000)	Proposed gross dividends (SAR'000)	Total (SAR'000)
Restated balance at 31 December 2018	37	16,250,000	16,250,000	(349,555)	12,499,171	3,656,250	48,305,866
Net income for the year		-	-	-	10,158,527	-	10,158,527
Net change in fair value of FVOCI investments	15	-	-	178,773	-	-	178,773
Net movement in foreign currency translation reserve	15	-	-	6,371	-	-	6,371
Re-measurement of employee EOSB liabilities	15 & 25	-	-	(51,630)	-	-	(51,630)
Net other comprehensive income recognized directly in shareholders' equity		-	-	133,514	-	-	133,514
Total comprehensive income for the year		-	-	133,514	10,158,527	-	10,292,041
Transfer to statutory reserve		-	5,539,632	-	(5,539,632)	-	-
Bonus shares issued	14	8,750,000	-	-	(8,750,000)	-	-
Dividend for the second half 2018	23	-	-	-	-	(3,656,250)	(3,656,250)
Interim dividends for the first half of 2019	23	-	-	-	(3,750,000)	-	(3,750,000)
Proposed final dividends for 2019	23 & 36	-	-	-	(3,750,000)	3,750,000	-
Balance at 31 December 2019		**25,000,000**	**21,789,632**	**(216,041)**	**868,066**	**3,750,000**	**51,191,657**
Balance at 31 December 2017		16,250,000	16,250,000	5,281,682	13,906,736	4,062,500	55,750,918
Impact of adopting IFRS 9	15	-	-	(129,789)	(2,752,899)	-	(2,882,688)
Impact of depreciation of property and equipment	37	-	-	-	(87,187)	-	(87,187)
Other adjustment	37	-	-	-	(799,356)	-	(799,356)
Restated balance at 1 January 2018	23	16,250,000	16,250,000	5,151,893	10,267,294	4,062,500	51,981,687
Restated net income for the year	37	-	-	-	3,767,953	-	3,767,953
Net change in fair value of FVOCI investments	15	-	-	(49,798)	-	-	(49,798)
Net movement in foreign currency translation reserve	15	-	-	(52,637)	-	-	(52,637)
Net other comprehensive income recognized directly in shareholders' equity		-	-	(102,435)	-	-	(102,435)
Total comprehensive income for the year		-	-	(102,435)	3,767,953	-	3,665,518
Final dividend for the second half 2017		-	-	-	-	(4,062,500)	(4,062,500)
Interim dividends for the first half of 2018	23	-	-	-	(3,250,000)	-	(3,250,000)
Proposed final dividends for 2018	23 & 36	-	-	-	(3,656,250)	3,656,250	-
Zakat adjustment and other transfers	37	-	-	(5,399,013)	5,370,174	-	(28,839)
Restated balance at 31 December 2018	**37**	**16,250,000**	**16,250,000**	**(349,555)**	**12,499,171**	**3,656,250**	**48,305,866**

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

Chairman

Chief Executive Officer

Chief Financial Officer

Consolidated Statement of Cash Flows

For the years ended 31 December 2019 and 2018

	Notes	2019 (SAR'000)	2018 (Restated Note 37) (SAR'000)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before Zakat		11,326,358	10,135,902
Adjustments to reconcile net income to net cash from/ (used in) operating activities:			
Gain on investments held at fair value through statement of income (FVSI)	19	(21,617)	(14,600)
Depreciation and amortization	8	1,059,582	603,136
Depreciation on investment properties	9	17,221	16,416
(Gain) / loss on sale of property and equipment, net	19	(568)	115
Impairment charge for financing and other financial assets, net	7	1,772,265	1,530,946
Share in profit of an associate	19	(23,481)	(47,928)
(Increase) / decrease in operating assets			
Statutory deposit with SAMA and other central banks		(1,219,309)	(1,491,942)
Due from banks and other financial institutions		(3,174,273)	(16,585,287)
Financing		(19,696,863)	(2,636,268)
FVSI investments		25,685	151,904
Other assets, net		(804,605)	1,333,582
Increase/ (decrease) in operating liabilities			
Due to banks and other financial institutions		(5,070,020)	1,767,057
Customers' deposits		18,496,698	20,852,681
Other liabilities		4,388,757	(1,245,223)
Net cash from operating activities		**7,075,830**	**14,370,491**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	8	(1,527,133)	(1,481,746)
Purchase of investment property		(103,480)	-
Purchase of FVOCI / FVSI investments		(1,638,587)	(1,389,489)
Proceeds from disposal of FVOCI / FVSI investments		1,148,963	1,203,936
Proceeds from maturities of investments held at amortized cost		91,458,865	96,748,563
Purchase of investments held at amortized cost		(94,524,237)	(103,363,657)
Net cash used in investing activities		**(5,185,609)**	**(8,282,393)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	23	(7,406,250)	(7,312,500)
Zakat paid		(2,889,286)	(211,290)
Payment against lease obligation		(269,789)	-
Net cash used in financing activities		**(10,565,325)**	**(7,523,790)**
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(8,675,104)**	**(1,435,692)**
Cash and cash equivalents at the beginning of the year		29,786,503	31,222,195
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**24**	**21,111,399**	**29,786,503**
Gross financing and investment income received during the year		16,693,465	13,391,901
Return on customers', banks' and financial institutions' time investments paid during the year		(282,046)	(728,956)
		16,411,419	**12,662,945**
Non-cash transactions:			
Other real estate		60,226	72,106
Net change in fair value of FVOCI equity investments		178,773	(49,798)

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

Chairman   Chief Executive Officer   Chief Financial Officer

Notes to Consolidated Financial Statements

For the years ended 31 December 2019 and 2018

1. GENERAL

a) Incorporation and operation

Al Rajhi Banking and Investment Corporation, a Saudi Joint Stock Company, (the "Bank"), was formed and licensed pursuant to Royal Decree No. M/59 dated 3 Dhul Qadah 1407H (corresponding to 29 June 1987) and in accordance with Article 6 of the Council of Ministers' Resolution No. 245, dated 26 Shawal 1407H (corresponding to 23 June 1987).

The Bank operates under Commercial Registration No. 1010000096 and its Head Office is located at the following address:

Al Rajhi Bank
8467 King Fahd Road - Al Muruj Dist.
Unit No 1
Riyadh 12263 - 2743
Kingdom of Saudi Arabia

The objectives of the Bank are to carry out banking and investment activities in accordance with its Articles of Association and By-Laws, the Banking Control Law and the Council of Ministers' Resolution referred to above. The Bank is engaged in banking and investment activities inside and outside the Kingdom of Saudi Arabia through 572 branches (2018: 581) including the branches outside the Kingdom and 13,439 employees (2018: 13,532 employees). The Bank has established certain subsidiary companies (together with the Bank hereinafter referred to as "the Group") in which it owns all or majority of their shares as set out below (Also see note 3(b)):

Name of subsidiaries	Shareholding % 2019	Shareholding % 2018	
Al Rajhi Development Company - KSA	100%	100%	A limited liability company registered in the Kingdom of Saudi Arabia to support the mortgage programs of the Bank through transferring and holding the title deeds of real estate properties under its name on behalf of the Bank, collection of revenue of certain properties sold by the Bank, provide real estate and engineering consulting services, provide documentation service to register the real estate properties and overseeing the evaluation of real estate properties.
Al Rajhi Corporation Limited – Malaysia	100%	100%	A licensed Islamic Bank under the Islamic Financial Services Act 2013, incorporated and domiciled in Malaysia.
Al Rajhi Capital Company – KSA	100%	100%	A limited liability company registered in the Kingdom of Saudi Arabia to act as principal agent and/or to provide brokerage, underwriting, managing, advisory, arranging and custodial services.
Al Rajhi Bank – Kuwait	100%	100%	A foreign branch registered with the Central Bank of Kuwait.
Al Rajhi Bank – Jordan	100%	100%	A foreign branch operating in Hashemite Kingdom of Jordan, providing all financial, banking, and investments services and importing and trading in precious metals and stones in accordance with Islamic Sharia'a rules and under the applicable banking law.
Al Rajhi Takaful Agency Company – KSA	99%	99%	A limited liability company registered in the Kingdom of Saudi Arabia to act as an agent for insurance brokerage activities per the agency agreement with Al Rajhi Cooperative Insurance Company.
Al Rajhi Company for management services – KSA	100%	100%	A limited liability company registered in the Kingdom of Saudi Arabia to provide recruitment services.
Emkan Finance Company – KSA	100%	-	A closed joint stock company registered in the Kingdom of Saudi Arabia providing micro consumer financing, finance lease and small and medium business financing. As of 31 December, the company is under licensing proscess with Saudi Arabian Monetary Authority (SAMA).

Since the subsidiaries are wholly or substantially owned by the Bank, the non-controlling interest is insignificant and therefore not disclosed. All of the above-mentioned subsidiaries have been consolidated.

b) Shari'a Authority

As a commitment from the Bank for its activities to be in compliance with Islamic Shari'a legislations, since its inception, the Bank has established a Shari'a Authority to ascertain that the Bank's activities are subject to its approval and control. The Shari'a Authority had reviewed several of the Bank's activities and issued the required decisions thereon.

2. BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements of the Group have been prepared:

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

The consolidated financial statements of the Group as at and for the year ended 31 December 2018 were prepared in compliance with International Financial Reporting Standards ("IFRS") as modified by Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat (relating to the application of IAS 12 – "Income Taxes" and IFRIC 21 – "Levies" in so far as these relate to zakat) and the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia.

On 17 July 2019, SAMA instructed the banks in the Kingdom of Saudi Arabia to account for zakat charges in the statement of income. This aligns with the IFRS and its interpretations as issued by the International Accounting Standards Board ("IASB") as endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements that are issued by SOCPA (collectively referred to as "IFRS as endorsed in KSA").

Accordingly, the Group changed its accounting treatment for zakat by retrospectively adjusting the impact in line with International Accounting Standard 8: Accounting Policies, Changes in Accounting Estimates and Errors (as disclosed in note 3 and effect of change in note 37 to the consolidated financial statements. The Group has further adopted IFRS 16: leases effective from 1 January 2019. The change in accounting policy due to this new standard is disclosed in note 3.

b) Basis of measurement and preparation

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of investments held as fair value through income statement ("FVSI") and investments held at fair value through other comprehensive income ("FVOCI").

The Group presents its consolidated statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non–current) is presented in note 27-2.

c) Functional and presentation currency

The consolidated financial statements are presented in Saudi Arabian Riyals ("SAR"), which is the Bank's functional currency, and are rounded off to the nearest thousand except where otherwise indicated.

d) Critical accounting judgments, estimates and assumptions

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

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Group. Such changes are reflected in the assumptions when they occur. Significant areas where management has used estimates, assumptions or exercised judgments is as follows:

i) Impairment losses on financial assets

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

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

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

ii) Fair value of financial instruments

The Group measures certain financial instruments at fair value at each consolidated balance sheet date.

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 are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The control indicators are subject to management's judgements, and can have a significant effect in the case of the Bank's interests in investments funds.

iii) Determination of control over investees

Investment funds

The Group acts as Fund Manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the Fund (comprising any carried profits and expected management fees) and the investor's rights to remove the Fund Manager the Group has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated these funds.

iv) 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 amounts of possible outflow of economic benefits. Timing and cost ultimately depends on the due process being followed as per the Law.

v) Going concern

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

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 31 December 2018 except for the adoption of the following new standard and other amendments to the accounting treatment of Zakat mentioned below.

Adoption of New Standards

Effective from 1 January 2019, the Group has adopted one new accounting standard and an amendment to the accounting treatment for Zakat. The impact of the adoption of these standards is explained below.

Except for the adoption of the below new accounting standard (IFRS 16), several other amendments and interpretations apply for the first time in 2019, but do not have significant an impact on the consolidated financial statements of the Group.

Adoption of IFRS 16 – Leases

The Group adopted IFRS 16 'Leases'. Before 1 January 2019, the Group accounted for leases as follows:

The Group as a lessee

Leases that do not transfer to the Group substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Consequently, all of the leases entered into by the Group are operating leases. Payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

The Group as a lessor

When assets are transferred under Islamic lease arrangements (e.g. Ijara Muntahia Bittamleek or Ijara with ownership promise), the present value of the lease payments is recognised as a receivable and disclosed under "Financing". The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

The Group has adopted IFRS 16 'Leases'. The standard replaces the existing guidance on leases, including IAS 17 'Leases", IFRIC 4 'Determining whether an Arrangement contains a Lease", SIC 15 "Operating Leases – Incentives" and SIC 27 "Evaluating the Substance of Transactions in the Legal Form of a Lease".

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

For each lease, the lessee recognizes a liability for the lease obligations incurred in the future. Correspondingly, a right to use the leased asset is capitalized, which is generally equivalent to the present value of the future lease payments plus directly attributable costs, which are amortized over the estimated useful life.

The Group has opted for the modified retrospective application permitted by IFRS 16 upon adoption of the new standard. During the first time application of IFRS 16 to operating leases, the right to use the leased assets was generally measured at the amount of lease liability, using the incremental financing rate that is applicable to the Group at 1 January 2019 (the time of initial application), which was approximately 4.6%. IFRS 16 transition disclosures also require the Group to present the reconciliation of the off-balance sheet lease obligations as of 31 December 2018 to the recognized lease liabilities as of 1 January 2019. The right of use assets are classified under property and equipment. On the other hand, the lease liability is classified under other liabilities.

RECONCILIATION OF LEASE LIABILITIES AS OF 1 JANUARY 2019

	SAR'000
Off-balance sheet lease obligations as of 31 December 2018	**1,256,100**
Lease liability of reasonably certain extensions or termination options	203,605
Discounting of lease liability using the Bank's incremental financing rate	(51,946)
Non-lease payments	(55,398)
Total lease liability recognized as of 1 January 2019	**1,352,361**

Right of Use (RoU) Assets / Lease Liabilities

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

Right of Use Assets

The Group applies the cost model, and measures right of use assets 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, a RoU asset would be equal to the lease liability. However, if there are additional costs such as site preparation, non-refundable deposits, application money, other expenses related to the transaction, etc., these need to be added to the RoU asset value.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset, or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment.

Lease Liability

On initial recognition, the lease liability is the present value of all remaining payments to the lessor.After the commencement date, the Group measures the lease liability by:

a) Increasing the carrying amount to reflect the incremental financing rate on the lease liability;
b) Reducing the carrying amount to reflect the lease payments made; and
c) Re-measuring the carrying amount to reflect any re-assessment or lease modification.

Right of use assets are classified under property and equipment, while lease liabilities are classified under other liabilities in the consolidated statement of financial position.

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

Right of use assets are classified under property and equipment, while lease liabilities are classified under other liabilities in the consolidated statement of financial position.

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

Accounting for Zakat

As mentioned in note 2(a) above, the basis of preparation has been changed for the year ended 31 December 2019 as a result of the issuance of latest instructions from SAMA dated 17 July 2019. Previously, zakat charge was recognized in the statement of changes in equity as per the SAMA circular no 381000074519 dated 11 April 2017. With the latest instructions issued by SAMA dated 17 July 2019, the zakat shall be recognized in the statement of income. The Group has accounted for this change in the accounting for zakat retrospectively, and the effects of the above change are disclosed in note 37 to the consolidated financial statements. The change has resulted in a reduction of reported income of the Group for the year ended 31 December 2018 by SAR 6,368 million. The change has had no impact on the consolidated statement of cash flows for the year ended 31 December 2018.

b) Basis of consolidation

These consolidated financial statements comprise the financial statements of the Group. 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 if 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 on which control commences until the date when control ceases.

The consolidated financial statements have been prepared using uniform accounting policies and valuation methods for like transactions and other events in similar circumstances. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Bank loses control over a subsidiary, it:

- Derecognises the assets and liabilities of the subsidiary
- Derecognises the cumulative translation differences recorded in shareholder's equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate as would be required if the Bank had directly disposed of the related assets or liabilities.

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

c) Investment in an associate

An associate is an entity over which the Group exercises significant influence (but not control), over financial and operating policies and which is neither a subsidiary nor a joint arrangement.

Investments in associates are carried in the consolidated statement of financial position at cost, plus post-acquisition changes in the Group's share of net assets of the associate, less any impairment in the value of individual investments. The Group's share of its associates' post-acquisition profits or losses are recognized in the consolidated statement of income, and its share of post-acquisition movements in other comprehensive income is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

The previously recognized impairment loss in respect of investment in associate can be reversed through the consolidated statement of income, such that the carrying amount of the investment in the consolidated statement of financial position remains at the lower of the equity-accounted (before provision for impairment) or the recoverable amount. On derecognition the difference between the carrying amount of investment in the associate and the fair value of the consideration received is recognized in the consolidated statement of income.

Unrealised gains on transactions are eliminated to the extent of the Group's interest in the investee. Unrealised losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred. The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

d) Financial instruments

1) Classification of financial assets

On initial recognition, a financial asset is classified and measured at: amortized cost, FVOCI or FVSI. This classification is generally based on the business model in which a financial asset is managed and its contractual cash flows.

Financial assets 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 FVSI:

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

Financial 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 FVSI:

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

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

Financial Asset at FVSI

All other financial assets are classified as measured at FVSI.

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

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

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual profit revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- 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 Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

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

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

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

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

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

Reclassification

The Group reclassifies the financial assets between FVSI, FVOCI and amortized cost if and only if under rare circumstances and if its business model objective for its financial assets changes so its previous business model assessment would no longer apply.

The Group offers profit based products including Mutajara, installment sales, Murabaha and Istisnaa to its customers in compliance with Shari'a rules.

The Group classifies its Principal financing and Investment as follows:

Financing: These financings represent loans granted to customers. These financings mainly constitute four broad categories i.e. Mutajara, Installment sales, Murabaha and credit cards. The Group classifies these financings at amortised cost.

Due from banks and other financial institutions : These consists of placements with financial Institutions (FIs). The Bank classifies these balances due from banks and other financial institutions at amortised cost as they are held to collect contractual cash flows and pass SPPI criterion.

Investments (Murabaha with SAMA) : These investments consists of placements with Saudi Arabian Monetary Agency (SAMA). The Bank classifies these investments at amortised cost as they are held to collect contractual cash flows and pass SPPI criterion.

Investments (Sukuk) : These investments consists of Investment in various Sukuk. The Group classifies these investments at amortised cost except for those Sukuk which fails SPPI criterion, which are classified at FVSI.

Equity Investments : These are the strategic equity investments which the Bank does not expect to sell, for which Group has made an irrevocable election on the date of initial recognition to present the fair value changes in other comprehensive income.

Investments (Mutual Funds) : The investments consist of Investments in various Mutual Funds. The Group classifies these investment at FVSI as these investments fail SPPI criterion.

2) Classification of financial liabilities

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

All amounts due to banks and other financial institutions and customer deposits are initially recognized at fair value less transaction costs.

Subsequently, financial liabilities are measured at amortized cost, unless they are required to be measured at fair value through profit or loss.

3) Derecognition

Financial assets

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

On derecognition of a financial asset (debt instrument), 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.

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

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 Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

4) Modifications of financial assets and financial liabilities

Financial assets

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

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

Financial liabilities

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

5) Impairment

Impairment of financial assets

The loss allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset. POCI assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and financing income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

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

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognized on equity investments.

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

12-month ECL 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. It is measured as follows:

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

Restructured financial assets

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing financial asset.

Credit-impaired financial assets

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

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group 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.

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

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

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

Presentation of allowance for ECL in the consolidated statement of financial position

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

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- where a financial instrument includes both a drawn and an undrawn component, and the Group 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.
- financing commitments and financial guarantee contracts: generally, as a provision;

Write-off

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

Collateral valuation

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

To the extent possible, the Group uses active market data for valuing financial assets held as collateral. 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 Group'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 Group's policy.

6) Financial guarantees and financing commitments

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

Financial guarantees issued or commitments to provide a financing 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 at the higher of this amortized amount and the amount of loss allowance; and

The Group has issued no financing commitments that are measured at FVSI. For other loan commitments the Group recognizes loss allowance;

7) Foreign Currencies

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year adjusted for the effective profits rate and payments during the year and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

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

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI are recognised in OCI.

The monetary assets and liabilities of foreign subsidiaries are translated into SAR at rates of exchange prevailing at the date of the consolidated statement of financial position. The statements of income of foreign subsidiaries are translated at the weighted average exchange rates for the year.

e) Trade date

All regular way purchases and sales of financial assets are recognized and derecognized on the trade date (i.e. the date on which the Group commits to purchase or sell the assets). Regular way purchases or sales of financial assets require delivery of those assets within the time frame generally established by regulation or convention in the market place. All other financial assets and financial liabilities (including assets and liabilities designated at fair value through statement of income) are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

f) Offsetting financial instruments
Financial assets and financial liabilities are offset and are reported net in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts, and when the Group intends to settle on a net basis, or to realize the asset and settle the liability simultaneously. Income and expenses are not offset in the consolidated statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

g) Revenue recognition
The following specific recognition criteria must be met before revenue is recognized.

Income from Mutajara, Murabaha, investments held at amortized cost, installment sale, Istisna'a financing and credit cards services is recognized based on the effective yield basis on the outstanding balances. The effective yield is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset (or, where appropriate, a shorter period) to the carrying amount of the financial asset . When calculating the effective yield, the Group estimates future cash flows considering all contractual terms of the financial instrument but excluding future credit losses. Fees and commissions are recognized when the service has been provided.

Financing commitment fees that are likely to be drawn down and other credit related fees are deferred (above certain threshold) and, together with the related direct cost, are recognized as an adjustment to the effective yield on the financing. When a financing commitment is not expected to result in the draw-down of a financing, financing commitment fees are recognised on a straight-line basis over the commitment period.

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

Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, over the period when the service is being provided i.e. related performance obligation is satisfied.

Fees received for 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 i.e. related performance obligation is satisfied. Asset management fees related to investment funds are recognized over the period the service is being provided. The same principle applies to Wealth management and Custody Services that are continuously recognized over a period of time.

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

Foreign currency exchange income / loss is recognized when earned / incurred.

Net trading income results from trading activities and include all realised and unrealised gains and losses from changes in fair value and related gross investment income or expense, dividends for financial assets and financial liabilities held for trading and foreign exchange differences.

Net income from FVSI financial instruments relates to financial assets and liabilities designated as FVSI and includes all realised and unrealised fair value changes, investment income, dividends and foreign exchange differences.

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 payment service system, share trading services, remittance business, SADAD and Mudaraba (i.e. subscription, management and performance fees), should be recognized at the point when services are rendered i.e. when performance obligation is satisfied.

h) Other real estate
The Group, in the ordinary course of business, acquires certain real estate against settlement of due financing. Such real estate are considered as assets held for sale and are initially stated at the lower of net realisable value of due financing and the current fair value of the related properties, less any costs to sell (if material). Rental income from other real estate is recognised in the consolidated statement of income.

i) Investment properties
Investment properties are held for long-term rental yield and are not occupied by the Group. They are carried at cost, and depreciation is charged to the consolidated statement of income.

The cost of investment properties is depreciated using the straight-line method over the estimated useful life of the assets.

j) Property and equipment
Property and equipment is stated at cost less accumulated depreciation and accumulated impairment loss. Land is not depreciated. The cost of other property and equipment is depreciated using the straight-line method over the estimated useful life of the assets, as follows:

Leasehold land improvements over the lesser of the period of the lease or the useful life

Buildings – 33 years
Leasehold building improvements – over the lease period or 3 years, whichever is shorter
Equipment and furniture – 3 to 10 years
Right of use assets – over the lease period

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the date of each statement of financial position.

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

All assets are reviewed for impairment at each reporting date and 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.

k) Customers' deposits
Customer deposits are financial liabilities that are initially recognized at fair value less transaction cost, being the fair value of the consideration received, and are subsequently measured at amortized cost.

l) Provisions
Provisions are recognized when the Group has present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

m) Cash and cash equivalents
For the purposes of the consolidated statement of cash flows, 'cash and cash equivalents' include notes and coins on hand, balances with SAMA (excluding statutory deposits) and due from banks and other financial institutions with original maturity of 90 days or less from the date of acquisition which are subject to insignificant risk of changes in their fair value.

n) Short-term employee benefits
Short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided.

o) Special commission excluded from the consolidated statement of income
In accordance with the Shari'a Authority's resolutions, special commission income (non-Shari'a compliant income) received by the Bank is excluded from the determination of financing and investment income of the Bank, and is transferred to other liabilities in the consolidated statement of financial position and is subsequently paid-off to charities institution.

p) Provisions for employees' end of service benefits
The provision for employees' end of service benefits is accrued using actuarial valuation according to the regulations of Saudi labor law and local regulatory requirements.

q) Share-based payments
The Bank's founders had established a share-based compensation plan under which the entity receives services from the eligible employees as consideration for equity instruments of the Bank which are granted to the employees.

r) Mudaraba funds
The Group carries out Mudaraba transactions on behalf of its customers, and are treated by the Group as being restricted investments. These are included as off balance sheet items. The Group's share of profits from managing such funds is included in the Group's consolidated statement of income.

s) Investment management services
The Bank provides investment management services to its customers, through its subsidiary which include management of certain mutual funds. Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, accordingly, are not included in the Group's consolidated financial statements. The Group's share of these funds is included under FVSI investments. Fees earned are disclosed in the consolidated statement of income.

t) Bank's products definition
The Bank provides its customers with banking products based on interest avoidance concept and in accordance with Shari'a regulations. The following is a description of some of the financing products:

Mutajara financing:
It is a financing agreement whereby the Bank purchases a commodity or an asset and sells it to the client based on a purchase promise from the client with a deferred price higher than the cash price, accordingly the client becomes debtor to the Bank with the sale amount and for the period agreed in the contract.

Installment sales financing:

It is a financing agreement whereby the Bank purchases a commodity or an asset and sells it to the client based on a purchase promise from the client with a deferred price higher than the cash price.

Accordingly the client becomes a debtor to the Bank with the sale amount to be paid through installments as agreed in the contract.

Istisnaa financing:

It is a financing agreement whereby the Bank contracts to manufacture a commodity with certain known and accurate specifications according to the client's request. The client becomes a debtor to the Bank for the manufacturing price, which includes cost plus profit.

Murabaha financing:

It is a financing agreement whereby the Bank purchases a commodity or asset and sells it to the client with a price representing the purchase price plus a profit known and agreed by the client which means that the client is aware of the cost and profit separately.

4. CASH AND BALANCES WITH SAMA AND OTHER CENTRAL BANKS

Cash and balances with SAMA and other central banks as of 31 December comprise of the following:

	2019 (SAR'000)	2018 (SAR'000)
Cash in hand	7,404,276	8,133,635
Statutory deposits	20,663,503	19,444,194
Current account with SAMA	371,320	293,214
Mutajara with SAMA	10,855,000	15,375,000
Total	**39,294,099**	**43,246,043**

In accordance with the Banking Control Law and regulations issued by SAMA, the Bank is required to maintain a statutory deposit with SAMA and other central banks at stipulated percentages of its customers' demand deposits, customers' time investment and other customers' accounts calculated at the end of each Gregorian month.

The above statutory deposits are not available to finance the Bank's day-to-day operations and therefore are not considered as part of cash and cash equivalents (note 24) when preparing the consolidated statement of cash flows.

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Due from banks and other financial institutions as of 31 December comprise the following:

	2019 (SAR'000)	2018 (SAR'000)
Current accounts	798,168	778,769
Mutajara	31,260,014	31,608,991
Total	**32,058,182**	**32,387,760**

The tables below depict the quality of due from banks and other financial institutions as at 31 December:

	2019 (SAR'000)	2018 (SAR'000)
Investment grade (credit rating AAA to BBB)	31,601,630	31,381,339
Non-investment grade (credit rating BB+ to B-)	241,353	750,591
Unrated	215,199	255,830
Total	**32,058,182**	**32,387,760**

The credit quality of due from banks and other financial institutions is managed using external credit rating agencies. The above due from banks and other financial institutions balances are neither past due nor impaired.

6. INVESTMENTS, NET

a) Investments comprise the following as of 31 December:

	2019 (SAR'000)	2018 (SAR'000)
Investment in an associate	**196,235**	**172,753**
Investments held at amortized cost		
Murabaha with Saudi Government and SAMA	24,991,978	22,477,145
Sukuk	17,973,379	17,395,957
Less: Impairment (Stage 1)	(22,270)	(28,337)
Total investments held at amortized cost	**42,943,087**	**39,844,765**
Investments held as FVSI		
Mutual funds	1,230,711	1,141,584
Sukuk	800,000	800,000
Total investments held as FVSI	**2,030,711**	**1,941,584**
FVOCI investments		
Equity investments	1,672,597	1,103,463
Total FVOCI investments	**1,672,597**	**1,103,463**
Investments	**46,842,630**	**43,062,565**

The designated FVSI investments included above are designated upon initial recognition as FVSI and are in accordance with the documented risk management strategy of the Bank.

All investments held at amortized cost are neither past due nor impaired as of 31 December 2019 & 2018.

Equity investment securities designated as at FVOCI

At 1 January 2018, the Bank designated equity securities designated as at FVOCI. The FVOCI designation was made because the investments are expected to be held for the long-term for strategic purposes.

None of the strategic investments were disposed of during 2019, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

Investment in an associate

The Bank owns 22.5% (31 December 2018: 22.5%) shares of Al Rajhi Company for Cooperative Insurance, a Saudi Joint Stock Company.

b) The analysis of the composition of investments as of 31 December is as follows:

2019	Quoted (SAR'000)	Unquoted (SAR'000)	Total (SAR'000)
Murabaha with Saudi Government and SAMA	-	24,991,978	24,991,978
Sukuk	13,248,750	5,502,359	18,751,109
Equities	1,844,477	24,355	1,868,832
Mutual funds	-	1,230,711	1,230,711
Total	**15,093,227**	**31,749,403**	**46,842,630**

2018	Quoted (SAR'000)	Unquoted (SAR'000)	Total (SAR'000)
Murabaha with Saudi Government and SAMA	-	22,477,145	22,477,145
Sukuk	12,799,000	5,368,620	18,167,620
Equities	1,251,854	24,362	1,276,216
Mutual funds	-	1,141,584	1,141,584
Total	**14,050,854**	**29,011,711**	**43,062,565**

c) The analysis of unrecognized gains and losses and fair values of investments as of 31 December are as follows:

2019	Gross carrying value (SAR'000)	Gross unrecognized gains (SAR'000)	Gross unrecognized losses (SAR'000)	Fair value (SAR'000)
Murabaha with Saudi Government and SAMA	24,991,978	276,199	-	25,268,177
Sukuk	18,773,379	384,209	-	19,157,588
Equities	1,868,832	42,954	-	1,911,786
Mutual funds	1,230,711	6,494	-	1,237,205
Total	**46,864,900**	**709,856**	**-**	**47,574,756**

2018	Gross carrying value (SAR'000)	Gross unrecognized gains (SAR'000)	Gross unrecognized losses (SAR'000)	Fair value (SAR'000)
Murabaha with Saudi Government and SAMA	22,477,145	198,467	-	22,675,612
Sukuk	18,195,957	9,011	-	18,204,968
Equities	1,276,216	-	(126,599)	1,149,617
Mutual funds	1,141,584	-	(2,173)	1,139,411
Total	**43,090,902**	**207,478**	**(128,772)**	**43,169,608**

d) Credit quality of investments

	2019 (SAR'000)	2018 (SAR'000)
Murabaha with Saudi Government and SAMA	24,991,978	22,477,145
Sukuk - Investment grade	18,565,484	18,167,620
Sukuk - BB+ (Fitch)	185,625	-
Total	**43,743,087**	**40,644,765**

Investment Grade includes those investments having credit exposure equivalent to Standard and Poor's rating of AAA to BBB. The unrated category only comprise of unquoted sukuk. Fitch has assigned A rating to KSA as a country as at 31 December 2019 (31 December 2018 : A-).

e) The following is an analysis of foreign investments according to investment categories as at 31 December:

	2019 (SAR'000)	2018 (SAR'000)
Investments held at amortized cost		
Sukuk	1,128,857	1,539,271
Investments held as FVSI		
Equity investments	21,274	21,282
Mutual funds	13,409	23,543
Total	**1,163,540**	**1,584,096**

f) The following is an analysis of investments according to counterparties as at 31 December:

	2019 (SAR'000)	2018 (SAR'000)
Government and quasi government	41,780,947	39,874,318
Banks and other financial institutions	800,000	800,000
Companies	3,053,242	1,275,000
Mutual funds	1,230,711	1,141,584
Less: Impairment (Stage 1)	(22,270)	(28,337)
Net investments	**46,842,630**	**43,062,565**

7. FINANCING, NET

7-1 Financing

a. Net financing as of 31 December comprises the following:

2019	Performing (SAR'000)	Non-performing (SAR'000)	Allowance for impairment (SAR'000)	Net financing (SAR'000)
Mutajara	42,932,499	1,687,074	(3,042,329)	41,577,244
Installment sale	190,952,220	581,977	(3,810,196)	187,724,001
Murabaha	17,372,860	-	(144,794)	17,228,066
Credit cards	3,128,029	47,742	(22,277)	3,153,494
Total	**254,385,608**	**2,316,793**	**(7,019,596)**	**249,682,805**

2018	Performing (SAR'000)	Non-performing (SAR'000)	Allowance for impairment (SAR'000)	Net financing (SAR'000)
Mutajara	45,257,143	1,024,320	(2,562,159)	43,719,304
Installment sale	174,683,066	591,541	(4,024,656)	171,249,951
Murabaha	15,386,777	662,570	(1,219,747)	14,829,600
Credit cards	1,973,379	11,881	(25,909)	1,959,351
Total	**237,300,365**	**2,290,312**	**(7,832,471)**	**231,758,206**

b. The net financing by location, inside and outside the Kingdom of Saudi Arabia, as of 31 December is as follows:

	2019				
Description	Mutajara (SAR'000)	Installment sale (SAR'000)	Murabaha (SAR'000)	Credit cards (SAR'000)	Total (SAR'000)
Inside the Kingdom of Saudi Arabia	44,619,573	187,029,236	11,580,210	3,168,653	246,397,672
Outside the Kingdom of Saudi Arabia	-	4,504,961	5,792,650	7,118	10,304,729
Gross financing	44,619,573	191,534,197	17,372,860	3,175,771	256,702,401
Allowance for impairment	(3,042,329)	(3,810,196)	(144,794)	(22,277)	(7,019,596)
Net financing	41,577,244	187,724,001	17,228,066	3,153,494	249,682,805

	2018				
Description	Mutajara (SAR'000)	Installment sale (SAR'000)	Murabaha (SAR'000)	Credit cards (SAR'000)	Total (SAR'000)
Inside the Kingdom of Saudi Arabia	46,281,463	170,890,940	11,824,165	1,978,461	230,975,029
Outside the Kingdom of Saudi Arabia	-	4,383,667	4,225,182	6,799	8,615,648
Gross financing	46,281,463	175,274,607	16,049,347	1,985,260	239,590,677
Allowance for impairment	(2,562,159)	(4,024,656)	(1,219,747)	(25,909)	(7,832,471)
Net financing	43,719,304	171,249,951	14,829,600	1,959,351	231,758,206

The table below depicts the categories of financing as per main business segments at 31 December:

2019	Retail (SAR'000)	Corporate (SAR'000)	Total (SAR'000)
Mutajara	811,429	43,808,144	44,619,573
Installment sale	185,766,580	5,767,617	191,534,197
Murabaha	801,720	16,571,140	17,372,860
Credit cards	3,175,771	-	3,175,771
Financing, gross	**190,555,500**	**66,146,901**	**256,702,401**
Less: Allowance for impairment	(3,832,473)	(3,187,123)	(7,019,596)
Financing, net	**186,723,027**	**62,959,778**	**249,682,805**

2018	Retail (SAR'000)	Corporate (SAR'000)	Total (SAR'000)
Mutajara	320,987	45,960,476	46,281,463
Installment sale	168,453,798	6,820,809	175,274,607
Murabaha	373,612	15,675,735	16,049,347
Credit cards	1,985,260	-	1,985,260
Financing, gross	**171,133,657**	**68,457,020**	**239,590,677**
Less: Allowance for impairment	(4,050,565)	(3,781,906)	(7,832,471)
Financing, net	**167,083,092**	**64,675,114**	**231,758,206**

The table below summarizes financing balances at 31 December that are neither past due nor impaired, past due but not impaired and impaired, as per the main business segments of the Group:

2019	Neither past due nor impaired (SAR'000)	Past due but not impaired (SAR'000)	Impaired (SAR'000)	Total (SAR'000)	Allowance for impairment (SAR'000)	Net financing (SAR'000)
Retail	189,591,885	333,896	629,719	190,555,500	(3,832,473)	186,723,027
Corporate	60,203,638	4,256,189	1,687,074	66,146,901	(3,187,123)	62,959,778
Total	**249,795,523**	**4,590,085**	**2,316,793**	**256,702,401**	**(7,019,596)**	**249,682,805**

2018	Neither past due nor impaired (SAR'000)	Past due but not impaired (SAR'000)	Impaired (SAR'000)	Total (SAR'000)	Allowance for impairment (SAR'000)	Net financing (SAR'000)
Retail	169,473,152	276,300	603,457	170,352,909	(4,050,565)	166,302,344
Corporate	61,283,584	6,267,329	1,686,855	69,237,768	(3,781,906)	65,455,862
Total	**230,756,736**	**6,543,629**	**2,290,312**	**239,590,677**	**(7,832,471)**	**231,758,206**

Financing past due for less than 90 days is not treated as impaired, unless other available information proves otherwise. 'Neither past due nor impaired' and 'past due but not impaired' comprise total performing financing.

7-2 Allowance for impairment of financing:

a. The movement in the allowance for impairment of financing for the years ended 31 December is as follows (included in is the write-off amount of SAR 260 million which was written off against other financial assets).

2019	Retail (SAR'000)	Corporate (SAR'000)	Total (SAR'000)
Balance at beginning of the year	4,050,565	3,781,906	7,832,471
Gross charge for the year	1,828,948	1,011,379	2,840,327
Bad debts written off against provision	(2,047,040)	(1,606,162)	(3,653,202)
Balance at the end of the year	3,832,473	3,187,123	7,019,596

2018	Retail (SAR'000)	Corporate (SAR'000)	Total (SAR'000)
Closing allowance as at 31 December 2017 (calculated under IAS 39)	2,023,434	3,531,776	5,555,210
Amounts restated through opening retained earnings	1,863,397	1,019,291	2,882,688
Opening impairment allowance as at 1 January 2018 (calculated under IFRS 9)	3,886,831	4,551,067	8,437,898
Gross charge for the year	1,563,491	1,193,705	2,757,196
Bad debts written off against provision	(1,399,757)	(1,962,866)	(3,362,623)
Balance at the end of the year	4,050,565	3,781,906	7,832,471

b. The following table shows reconciliations from the opening to the closing balance of the impairment allowance for financings to customers at amortized cost

2019	12 month ECL (SAR '000')	Lifetime ECL not credit impaired (SAR '000')	Lifetime ECL credit impaired (SAR '000')	Total (SAR '000')
Financings to customers at amortized cost				
Balance at 1 January 2019	2,649,346	3,360,889	2,033,418	8,043,653
Transfer to 12 month ECL	721,178	(721,178)	-	-
Transfer to Lifetime ECL not credit impaired	(41,307)	95,244	(53,937)	-
Transfer to Lifetime ECL credit impaired	(9,290)	(273,097)	282,387	-
Charge for the year	(334,105)	639,699	2,691,920	2,997,514
Write-offs	(469,302)	(354,013)	(2,569,887)	(3,393,202)
Balance as at 31 December 2019	**2,516,520**	**2,747,544**	**2,383,901**	**7,647,965**

2018	12 month ECL (SAR '000')	Lifetime ECL not credit impaired (SAR '000')	Lifetime ECL credit impaired (SAR '000')	Total (SAR '000')
Financings to customers at amortized cost				
Balance at 1 January 2018	2,643,679	4,094,076	1,700,143	8,437,898
Transfer to 12 month ECL	411,893	(411,893)	-	-
Transfer to Lifetime ECL not credit impaired	(38,177)	112,134	(73,957)	-
Transfer to Lifetime ECL credit impaired	(8,766)	(329,629)	338,395	-
Charge for the period	138,418	361,338	2,468,622	2,968,378
Write-offs	(497,701)	(465,137)	(2,399,785)	(3,362,623)
Balance as at 31 December 2018	**2,649,346**	**3,360,889**	**2,033,418**	**8,043,653**

Closing balance as at 31 December 2019, includes impairment allowance related to off balance sheet items amounting to SAR 368 million (2018: SAR 211 million) which is accounted for in other liabilities. Closing balance of Lifetime ECL credit impaired differs from total reported Non Performing financing (NPL) due to IFRS 9 implementation.

7-3 Impairment charge movement

The details of the impairment charge on financing for the year recorded in the consolidated statement of income is as follows:

	2019 (SAR'000)	2018 (SAR'000)
Provided for the year for on balance sheet	2,840,327	2,757,196
Provided for the year for off balance sheet	157,187	211,182
Recovery of written off financing, net	(1,225,249)	(1,437,432)
Allowance for financing impairment, net	1,772,265	1,530,946

7-4 Installment sale under financing includes finance lease receivables, which are as follows:

	2019 (SAR'000)	2018 (SAR'000)
Gross receivables from finance leases	25,261,591	30,551,173
Less than 1 year	367,707	4,485
1 to 5 years	17,072,183	22,201,101
Over 5 years	7,821,701	8,345,587
	25,261,591	**30,551,173**
Unearned future finance income on finance leases	(3,690,399)	(4,593,105)
Net receivables from finance leases	**21,571,192**	**25,958,068**

8. PROPERTY AND EQUIPMENT, NET

Property and equipment, net comprises the following as of 31 December:

	Land	Buildings	Leasehold land & buildings improvements	Equipment and furniture	Total
COST					
At 1 January 2018	2,320,596	3,827,002	941,671	5,379,504	12,468,773
Additions	23,229	502,482	34,242	959,949	1,519,902
Disposals	-	-	(26,159)	(35,391)	(61,550)
At 31 December 2018	**2,343,825**	**4,329,484**	**949,754**	**6,304,062**	**13,927,125**
Additions	156	1,884,315	383,707	562,168	2,830,346
Disposals	(6,096)	-	-	(32,190)	(38,286)
At 31 December 2019	**2,337,885**	**6,213,799**	**1,333,461**	**6,834,040**	**16,719,185**
ACCUMULATED DEPRECIATION					
At 1 January 2018, as reported previously	-	410,441	903,036	3,297,169	4,610,646
Restatement (note 37)	-	2,982	441	83,764	87,187
Restated balance at 1 January 2018 (note 37)	-	413,423	903,477	3,380,933	4,697,833
Restated charge for the year (note 37)	-	70,818	15,745	516,573	603,136
Disposals	-	-	-	(23,279)	(23,279)
At 31 December 2018	**-**	**484,241**	**919,222**	**3,874,227**	**5,277,690**
Charge for the year	-	373,782	77,624	608,176	1,059,582
Disposals	-	-	-	(25,334)	(25,334)
At 31 December 2019	**-**	**858,023**	**996,846**	**4,457,069**	**6,311,938**
NET BOOK VALUE					
At 31 December 2019	**2,337,885**	**5,355,776**	**336,615**	**2,376,971**	**10,407,247**
At 31 December 2018 (Note 37)	2,343,825	3,845,243	30,532	2,429,835	8,649,435
At 1 January 2018	2,320,596	3,413,579	38,194	1,998,571	7,770,940

Buildings include work-in-progress amounting to SAR 159 million as at 31 December 2019 (2018: SAR 1,595 million), and technology-related assets include work-in-progress amounting to SAR 608 million as of December 2019 (2018: SAR 419 million)

Equipment and furniture includes information technology-related assets having net book value of SAR 2,053 million as at 31 December 2019 (2018: SAR 1,372 million).

Included in the above line items are right-of-use assets as of 31 December 2019 of SAR 1,290 million. (2018: SAR nil).

Movement in right-of-use-assets for the year ended 31 December 2019

	Building (SAR'000)
Right of use asset recognised as of 1 January 2019	1,352,361
Additions	177,738
Amortization	(239,837)
Balance at the end of the year	1,290,262

9. INVESTMENT PROPERTIES, NET

The net book value of the investment properties approximates the fair value.

Investment properties, net comprises the following as of 31 December:

	Land (SAR'000)	Buildings (SAR'000)	Total (SAR'000)
COST			
Balance at 1 January 2018	811,670	538,329	1,349,999
Additions	-	447	447
At 31 December 2018	**811,670**	**538,776**	**1,350,446**
Additions	82,753	20,727	103,480
At 31 December 2019	**894,423**	**559,503**	**1,453,926**
ACCUMULATED DEPRECIATION			
Balance at 1 January 2018	-	(35,994)	(35,994)
Charge for the year	-	(16,862)	(16,862)
At 31 December 2018	**-**	**(52,856)**	**(52,856)**
Charge for the year	-	(17,221)	(17,221)
At 31 December 2019	**-**	**(70,077)**	**(70,077)**
NET BOOK VALUE			
At 31 December 2019	**894,423**	**489,426**	**1,383,849**
At 31 December 2018	**811,670**	**485,920**	**1,297,590**
At 1 January 2018	811,670	502,335	1,314,005

10. OTHER ASSETS, NET

Other assets, net comprise the following as of 31 December:

	2019 (SAR'000)	2018 (SAR'000)
Receivables, net	1,125,228	879,916
Prepaid expenses	498,690	393,317
Assets in transit subject to financing	1,289,212	574,905
Accrued income	294,421	273,846
Cheques under collection	392,958	324,636
Advance payments	386,032	266,634
Other real estate	60,420	72,106
Others, net	370,803	843,885
Total	**4,417,764**	**3,629,245**

11. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Due to banks and other financial institutions comprise the following as of 31 December:

	2019 (SAR'000)	2018 (SAR'000)
Current accounts	545,572	925,945
Banks' time investments	1,674,032	6,363,679
Total	**2,219,604**	**7,289,624**

12. CUSTOMERS' DEPOSITS

Customers' deposits by type comprise the following as of 31 December:

	2019 (SAR'000)	2018 (SAR'000)
Demand deposits	284,299,851	268,416,842
Customers' time investments	22,126,226	18,689,225
Other customer accounts	5,979,746	6,803,058
Total	**312,405,823**	**293,909,125**

The balance of the other customers' accounts includes margins on letters of credit and guarantees, cheques under clearance and transfers.

Customers' deposits by currency comprise the following as of 31 December:

	2019 (SAR'000)	2018 (SAR'000)
Saudi Arabian Riyals	298,569,853	282,460,829
Foreign currencies	13,835,970	11,448,296
Total	**312,405,823**	**293,909,125**

13. OTHER LIABILITIES

Other liabilities comprise the following as of 31 December:

	2019 (SAR'000)	2018 (SAR'000)
Accounts payable	4,225,376	2,877,770
Employees' end of service benefits liabilities (note 25)	980,304	901,970
Accrued expenses	1,243,720	974,599
Charities (note 32)	10,994	56,350
Zakat payable	4,627,204	6,338,103
Lease liability	1,294,689	-
Other	5,887,205	3,377,437
Total	**18,269,492**	**14,526,229**

14. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank consists of 2,500 million shares of SAR 10 each (2018: 1,625 million shares of SAR 10 each).

On the 4th of April 2019, the Bank's extraordinary general assembly approved to increase the share capital from SAR 16,250 million to SAR 25,000 million through issuance of stock dividends (7 shares for every 13 shares held). The amount of the capital increase was transferred from retained earnings.

Basic and diluted earnings per share for the year ended 31 December 2019 and 2018 is calculated by dividing the net income for the year by 2,500 million shares to give a retrospective effect of the change in the number of shares increased as a result of the bonus shares issued. The diluted earnings per share is the same as the basic earnings per share.

15. STATUTORY AND OTHER RESERVES

The Banking Control Law in Saudi Arabia and the By-Laws of the Bank require a transfer to statutory reserve at a minimum of 25% of the annual net income for the year. Such transfers continue until the reserve equals the paid up share capital. This reserve is presently not available for distribution.

Other reserves includes FVOCI investments reserve, foreign currency translation reserve and employee share plan reserve.

The movements in FVOCI investments, foreign currency reserves, and employee share plan reserve are summarized as follows:

2019	FVOCI investments (SAR'000)	Foreign currency translation (SAR'000)	Employee share Plan reserve (SAR'000)	Re-measurement of employees' end of service benefits (SAR'000)	Total (SAR'000)
Balance at beginning of the year	(259,717)	(126,948)	37,110	-	(349,555)
Net change in fair value	178,773	-	-	-	178,773
Exchange difference on translation of foreign operations	-	6,371	-	-	6,371
Re-measurement of employees' end of service benefits (note 25)	-	-	-	(51,630)	(51,630)
Balance at the end of the year	**(80,944)**	**(120,577)**	**37,110**	**(51,630)**	**(216,041)**

2018	FVOCI investments (SAR'000)	Foreign currency translation (SAR'000)	Employee share Plan reserve (SAR'000)	Re-measurement of employees' end of service benefits (SAR'000)	Total (SAR'000)
Balance at beginning of the year	(80,130)	(74,311)	37,110	-	(117,331)
Impact of adopting IFRS 9	(129,789)	-	-	-	(129,789)
Net change in fair value	(49,798)	-	-	-	(49,798)
Exchange difference on translation of foreign operations	-	(52,637)	-	-	(52,637)
Balance at the end of the year	**(259,717)**	**(126,948)**	**37,110**	**-**	**(349,555)**

16. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

As at 31 December 2019, there were certain legal proceedings outstanding against the Group in the normal course of business including those relating to the extension of credit facilities. Such proceedings are being reviewed by the concerned parties.

Provisions have been made for some of these legal cases based on the assessment of the Bank's legal advisors.

b) Capital commitments

As at 31 December 2019, the Group had capital commitments of SAR 290 million (2018: SAR 170 million) relating to contracts for computer software update and development, and SAR 145 million (2018: SAR 65 million) relating to building new workstations, and development and improvement of new and existing branches.

c) Credit related commitments and contingencies

The primary purpose of these instruments is to ensure that funds are available to customers as required. Credit related commitments and contingencies mainly comprise letters of guarantee, standby letters of credit, acceptances and unused commitments to extend credit. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet his obligations to third parties, carry the same credit risk as financing.

Letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate, and therefore, carry less risk. Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be presented before being reimbursed by the customers.

Cash requirements under guarantees and letters of credit are considerably less than the amount of the commitment because the Bank does not expect the third party to necessarily draw funds under the agreement.

Commitments to extend credit represent unused portions of authorization to extended credit, principally in the form of financing, guarantees and letters of credit. With respect to credit risk relating to commitments to extend unused credit, the Bank is potentially exposed to a loss in an amount which is equal to the total unused commitments. The likely amount of 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 without being funded.

1. The contractual maturities of the Bank's commitments and contingent liabilities are as follows:

2019	Less than 3 months (SAR'000)	From 3 to 12 months (SAR'000)	From 1 to 5 years (SAR'000)	Over 5 years (SAR'000)	Total (SAR'000)
Letters of credit	474,436	327,843	88,663	-	890,942
Acceptances	219,370	105,592	-	-	324,962
Letters of guarantee	1,178,236	2,985,474	765,867	43,623	4,973,200
Irrevocable commitments to extend credit	4,148,570	7,339,501	103,595	44,428	11,636,094
Total	**6,020,612**	**10,758,410**	**958,125**	**88,051**	**17,825,198**

2018	Less than 3 months (SAR'000)	From 3 to 12 months (SAR'000)	From 1 to 5 years (SAR'000)	Over 5 years (SAR'000)	Total (SAR'000)
Letters of credit	562,899	417,925	1,945	-	982,769
Acceptances	261,183	208,706	-	-	469,889
Letters of guarantee	1,270,202	2,405,041	1,159,962	41,956	4,877,161
Irrevocable commitments to extend credit	**2,459,684**	2,901,726	855,965	265,061	6,482,436
Total	**4,553,968**	**5,933,398**	**2,017,872**	**307,017**	**12,812,255**

2. The analysis of commitments and contingencies by counter-party is as follows:

	2019 (SAR'000)	2018 (SAR'000)
Corporates	16,322,590	11,704,696
Banks and other financial institutions	1,502,608	1,107,559
Total	**17,825,198**	**12,812,255**

17. NET FINANCING AND INVESTMENT INCOME

Net financing and investment income for the years ended 31 December comprises the following:

	2019 (SAR'000)	2018 (SAR'000)
Financing		
Corporate Mutajara	2,531,823	2,379,009
Installment sale	11,154,919	9,990,021
Murabaha	859,641	781,737
Investments and other		
Murabaha with SAMA	1,210,789	1,092,878
Mutajara with banks	1,007,516	563,249
Income from sukuk	197,895	186,815
Gross financing and investment income	**16,962,583**	**14,993,709**
Return on customers' time investments	(418,891)	(346,796)
Return on due to banks and financial institutions' time investments	(115,969)	(159,928)
Return on customers', banks' and financial institutions' time investments	(534,860)	(506,724)
Net financing and investment income	**16,427,723**	**14,486,985**

18. FEE FROM BANKING SERVICES, NET

Fee from banking services, net for the years ended 31 December comprise the following:

	2019 (SAR'000)	2018 (SAR'000)
Fee income:		
Drafts and remittances	354,981	397,142
Credit cards	441,705	499,020
Other electronic channel related	1,068,318	920,795
Brokerage and asset management, net	281,151	398,725
Others	711,525	462,263
Total fee income	**2,857,680**	**2,677,945**
Fee expenses:		
ATM Interchange related	(870,313)	(810,911)
Fee from banking services, net	**1,987,367**	**1,867,034**

19. OTHER OPERATING INCOME, NET

Other operating income for the years ended 31 December comprises the following:

	2019 (SAR'000)	2018 (SAR'000)
Dividend income	58,625	39,852
Gain / (loss) on sale of property and equipment, net	568	(115)
Rental income from investment properties	117,718	115,280
Share in profit of an associate	23,481	47,928
Gain on investments held as FVSI	21,617	14,600
Loss on sale of other real estate	(2,490)	(32,000)
Other income, net	75,759	24,150
Total	**295,278**	**209,695**

20. SALARIES AND EMPLOYEES' RELATED BENEFITS

The following tables provide an analysis of the salaries and employees' related benefits for the years ended 31 December:

			Variable compensations	
2019	**Number of employees (SAR'000)**	**Fixed compensation (SAR'000)**	**paid Cash (SAR'000)**	**Shares (SAR'000)**
Executives	17	35,204	18,196	46,133
Employees engaged in risk taking activities	1,626	512,278	64,282	24,537
Employees engaged in control functions	386	161,583	25,532	19,773
Other employees	11,410	1,703,026	168,397	25,866
Total	**13,439**	**2,412,091**	**276,407**	**116,309**
Accrued fixed compensations in 2019	-	168,138	-	-
Other employees' costs	-	213,817	-	-
Gross total	**13,439**	**2,794,046**	**276,407**	**116,309**

			Variable compensations	
2018	**Number of employees (SAR'000)**	**Fixed compensation (SAR'000)**	**paid Cash (SAR'000)**	**Shares (SAR'000)**
Executives	17	31,515	18,352	35,712
Employees engaged in risk taking activities	1,460	391,876	57,459	15,818
Employees engaged in control functions	463	146,484	32,964	15,534
Other employees	11,592	1,876,868	197,110	18,360
Total	**13,532**	**2,446,743**	**305,885**	**85,424**
Accrued fixed compensations in 2018	-	148,136	-	-
Other employees' costs	-	214,570	-	-
Gross total	**13,532**	**2,809,449**	**305,885**	**85,424**

Salaries and employees' related benefits include end of services, General Organization for Social Insurance, business trips, training and other benefits.

As the Kingdom of Saudi Arabia is part of the G-20, instructions were given to all financial institutions in the Kingdom to comply with the standards and principles of Basel II and the Financial Stability Board.

SAMA, as the regulator for financial institutions in Saudi Arabia, issued regulations on compensations and bonus in accordance with the standards and principles of Basel II and the Financial Stability Board.

In light of the above SAMA's regulations, the Bank issued compensation and bonuses policy which was implemented after the Board of Directors approval.

The scope of this policy is extended to include the Bank and its subsidiary companies (local and international) that are operating in the financial services sector. Accordingly it includes all official employees, permanent and temporary contracted employees and service providers (contribution in risk position if SAMA allows the use of external resources).

For consistency with other banking institutions in the Kingdom of Saudi Arabia, the Bank has used a combination of fixed and variable compensation to attract and maintain talent. The fixed compensation is assessed on a yearly basis by comparing it to other local banks in the Kingdom of Saudi Arabia including the basic salaries, allowances and benefits which is related to the employees' ranks. The variable compensation is related to the employees' performance and their compatibility to achieve the agreed-on objectives. It includes incentives, performance bonus and other benefits. Incentives are mainly paid to branches' employees whereby the performance bonuses are paid to head office employees and others who do not qualify for incentives.

These bonuses and compensation are approved by the Board of Directors as a percentage of the Bank's net income.

21. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

Other general and administrative expenses for the years ended 31 December comprises the following:

	2019 (SAR'000)	2018 (SAR'000)
Communications and utilities expenses	481,424	356,061
Maintenance and security expenses	460,550	415,660
Cash feeding and transfer expenses	355,245	327,112
Software and IT support expenses	277,520	178,317
Other operational expenses	957,474	648,368
Total	**2,532,213**	**1,925,518**

22. EARNINGS PER SHARE

Earnings per share for the years ended 31 December 2019 and 2018 have been calculated by dividing the net income for the period by 2,500 million shares to give a retrospective effect (in the case of 2018) of the change in the number of shares increased as a result of the bonus shares issued. The diluted earnings per share is the same as the basic earnings per share.

23. PAID AND PROPOSED DIVIDENDS

On 1 August 2019, the Bank has paid an interim dividends amounting to SAR 3,750 million (SAR 1.5 per share) for the first half of 2019. (2018: SAR 3,250 million (i.e. SAR 2 per share) based on 1,625 million shares).

Also on 2 February 2020, the Board of Directors proposed final dividends for the year 2019 amounting to SAR 3,750 million (i.e. SAR 1.5 per share) (2018: SAR 3,656 million, (i.e. SAR 2.25 per share) based on 1,625 million shares).

24. CASH AND CASH EQUIVALENTS

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

	2019 (SAR'000)	2018 (SAR'000)
Cash in hand	7,404,276	8,133,635
Due from banks and other financial institutions maturing within 90 days from the date of purchased	2,480,803	5,984,654
Balances with SAMA and other central banks (current accounts)	371,320	293,214
Mutajara with SAMA	10,855,000	15,375,000
Total	**21,111,399**	**29,786,503**

25. EMPLOYEES' END OF SERVICE BENEFITS LIABILITIES

25.1 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 the projected unit credit method, while the benefit payments liabilities are discharged as and when they fall due.

25.2 The amounts recognized in the consolidated statement of financial position and movement in the liabilities during the year based on its present value are as follows:

	2019 (SAR'000)	2018 (SAR'000)
Employees' end of service benefits liabilities at the beginning of the year	901,970	848,422
Current service cost	98,541	107,685
Financing cost	39,845	85,995
Benefits paid	(111,682)	(140,132)
Remeasurement loss	51,630	-
Employees' end of service benefits liabilities at the end of the year	980,304	901,970

25.3 Charge for the year

	2019 (SAR'000)	2018 (SAR'000)
Current service cost	98,541	106,152
Past service cost	-	1,533
	98,541	**107,685**

25.4 Re-measurement recognised in other comprehensive income

	2019 (SAR'000)	2018 (SAR'000)
Gain from change in experience assumptions	(5,940)	-
Loss from change in financial assumptions	57,570	-
	51,630	**-**

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

	2019	2018
Discount rate	4.20%	5.00%
Expected rate of salary increase	3.00%	3.00%
Normal retirement age	60 years for male employees and 55 for female employees	60 years for male employees and 55 for female employees

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

25.6 Sensitivity of actuarial assumptions

The table below illustrates the sensitivity of the employees' end of service benefits liabilities valuation as at 31 December, 2019 to the discount rate (4.20%), salary increase rate (3.00%), withdrawal assumptions and mortality rates.

2019	Impact on defined benefit obligation – Increase / (Decrease)		
Base Scenario	Change in assumption SAR 000'	Increase in assumption SAR 000'	Decrease in assumption SAR 000'
Discount rate	+/- 100 basis points	(109,828)	131,671
Expected rate of salary increase	+/- 100 basis points	131,949	(111,989)
Normal retirement age	Increase or decrease by 20%	3,204	(4,098)

2018	Impact on defined benefit obligation – Increase / (Decrease)		
Base Scenario	Change in assumption SAR 000'	Increase in assumption SAR 000'	Decrease in assumption SAR 000'
Discount rate	+/- 100 basis points	(96,511)	115,452
Expected rate of salary increase	+/- 100 basis points	117,256	(99,217)
Normal retirement age	Increase or decrease by 20%	9,020	(10,824)

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

25.7 Expected maturity

Expected maturity analysis of undiscounted employees' end of service benefits liabilities is as follows:

As at 31 December	Discounted liability	Less than a year	1-2 years	2-5 years	Over 5 years	Total
2019	980,304	66,110	72,742	256,803	3,638,241	4,033,896
2018	901,970	61,300	71,836	244,884	3,519,680	3,897,700

The weighted average duration of the employees' end of service benefits liabilities is 14.4 years (2018: 15 years).

26. OPERATING SEGMENTS

The Bank identifies operating segments on the basis of internal reports about the activities of the Bank that are regularly reviewed by the chief operating decision maker, principally the Chief Executive Officer, in order to allocate resources to the segments and to assess its performance.

For management purposes, the Bank is organized into the following four main businesses segments:

Retail segment:	Includes individual customer deposits, credit facilities, customer debit current accounts (overdrafts) and fees from banking services.
Corporate segment:	Incorporates deposits of corporate customers, credit facilities, and debit current accounts (overdrafts).
Treasury segment:	Includes treasury services, Murabaha with SAMA and international Mutajara portfolio and remittance business.
Investment services and brokerage segments:	Includes investments of individuals and corporates in mutual funds, local and international share trading services and investment portfolios.

Transactions between the above segments are on normal commercial terms and conditions. Assets and liabilities for the segments comprise operating assets and liabilities, which represents the majority of the Bank's assets and liabilities.

a) The Bank's total assets and liabilities, together with its total operating income and expenses, and net income, as of and for the years ended 31 December for each segment are as follows:

2019	Retail segment (SAR'000)	Corporate segment (SAR'000)	Treasury segment (SAR'000)	Investment services and brokerage segment (SAR'000)	Total (SAR'000)
Total assets	**208,945,668**	**59,406,741**	**112,968,906**	**2,765,261**	**384,086,576**
Total liabilities	**289,628,309**	**34,753,212**	**8,376,081**	**137,317**	**332,894,919**
Gross financing and investment income from external customers	11,115,534	3,329,362	2,493,337	24,350	16,962,583
Inter-segment operating income/ (expense)	1,432,229	(1,117,680)	(314,549)	-	-
Gross financing and investment income	**12,547,763**	**2,211,682**	**2,178,788**	**24,350**	**16,962,583**
Return on customers', banks' and financial institutions' time investments	(221,657)	(127,114)	(186,089)	-	(534,860)
Net financing and investment income	**12,326,106**	**2,084,568**	**1,992,699**	**24,350**	**16,427,723**
Fees from banking services, net	971,089	366,932	252,103	397,243	1,987,367
Exchange income, net	159,805	67,405	546,886	-	774,096
Other operating income, net	133,815	13,017	106,661	41,785	295,278
Total operating income	**13,590,815**	**2,531,922**	**2,898,349**	**463,378**	**19,484,464**
Depreciation and amortization	(983,974)	(14,234)	(54,958)	(6,416)	(1,059,582)
Impairment charge for financing and other financial assets, net	(1,713,370)	(61,373)	2,478	-	(1,772,265)
Other operating expenses	(4,467,064)	(305,892)	(407,238)	(146,065)	(5,326,259)
Total operating expenses	**(7,164,408)**	**(381,499)**	**(459,718)**	**(152,481)**	**(8,158,106)**
Income before zakat	**6,426,407**	**2,150,423**	**2,438,631**	**310,897**	**11,326,358**

2018	Retail segment (SAR'000)	Corporate segment (SAR'000)	Treasury segment (SAR'000)	Investment services and brokerage segment (SAR'000)	Total (SAR'000)
Total assets	**186,924,991**	**62,102,306**	**111,970,385**	**3,033,162**	**364,030,844**
Total liabilities	**273,115,320**	**28,763,133**	**13,716,156**	**130,369**	**315,724,978**
Gross financing and investments income from external customers	9,923,875	3,062,944	1,982,370	24,520	14,993,709
Inter-segment operating income/ (expense)	774,845	(898,876)	124,031	-	-
Gross financing and investment income	**10,698,720**	**2,164,068**	**2,106,401**	**24,520**	**14,993,709**
Return on customers', banks' and financial institutions' time investments	(124,676)	(213,870)	(159,928)	(8,250)	(506,724)
Net financing & investment income	10,574,044	1,950,198	1,946,473	16,270	14,486,985
Fees from banking services, net	867,121	323,890	277,298	398,725	1,867,034
Exchange income, net	157,251	40,892	557,661	-	755,804
Other operating income, net	25,019	-	62,699	121,977	209,695
Total operating income	**11,623,435**	**2,314,980**	**2,844,131**	**536,972**	**17,319,518**
Depreciation and amortization	(517,955)	(9,948)	(69,464)	(5,769)	(603,136)
Impairment charge for financing and other financial assets, net	(1,177,409)	(302,895)	(50,642)	-	(1,530,946)
Other operating expenses	(4,145,108)	(322,513)	(440,005)	(141,908)	(5,049,534)
Total operating expenses	**(5,840,472)**	**(635,356)**	**(560,111)**	**(147,677)**	**(7,183,616)**
Income before zakat	**5,782,963**	**1,679,624**	**2,284,020**	**389,295**	**10,135,902**

b) The Group's credit exposure by business segments as of 31 December is as follows:

2019	Retail segment (SAR'000)	Corporate segment (SAR'000)	Treasury segment (SAR'000)	Investment services and brokerage segment (SAR'000)	Total (SAR'000)
Consolidated balance sheet assets	166,049,907	55,905,791	100,797,864	2,730,512	325,484,074
Commitments and contingencies excluding irrevocable commitments to extend credit	-	6,092,269	-	-	6,092,269

2018	Retail segment (SAR'000)	Corporate segment (SAR'000)	Treasury segment (SAR'000)	Investment services and brokerage segment (SAR'000)	Total (SAR'000)
Consolidated balance sheet assets	155,728,107	52,268,997	94,240,742	2,552,885	304,790,731
Commitments and contingencies excluding irrevocable commitments to extend credit	-	6,329,819	-	-	6,329,819

27. FINANCIAL RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the banking business, and these risks are an inevitable consequence of participating in financial markets. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

The Bank's risk management policies, procedures and systems are designed to identify and analyze these risks and to set appropriate risk mitigants and controls. The Bank reviews its risk management policies and systems on an ongoing basis to reflect changes in markets, products and emerging best practices.

Risk management is performed by the Credit and Risk Management Group ("CRMG") under policies approved by the Board of Directors. The CRMG identifies and evaluates financial risks in close co-operation with the Bank's operating units. The most important types of risks identified by the Bank are credit risk, liquidity risk and market risk. Market risk includes currency risk, profit rate risk, operational risk and price risk.

27-1 Credit risk

Credit risk is considered to be the most significant and pervasive risk for the Bank. The Bank takes on exposure to credit risk, which is the risk that the counter-party to a financial transaction will fail to discharge an obligation causing the Bank to incur a financial loss. Credit risk arises principally from financing (credit facilities provided to customers) and from cash and deposits held with other banks. Further, there is credit risk in certain off-balance sheet financial instruments, including guarantees relating to purchase and sale of foreign currencies, letters of credit, acceptances and commitments to extend credit. Credit risk monitoring and control is performed by the CRMG, which sets parameters and thresholds for the Bank's financing activities.

a) Credit risk measurement

i) Financing

The Bank has structured a number of financial products which are in accordance with Sharia law in order to meet the customers demand. These products are all classified as financing assets in the Bank's consolidated statement of financial position. In measuring credit risk of financing at a counterparty level, the Bank considers the overall credit worthiness of the customer based on a proprietary risk methodology.

This risk rating methodology utilizes a 10 point scale based on quantitative and qualitative factors with seven performing categories (rated 1 to 7) and three non-performing categories (rated 8-10). The risk rating process is intended to advise the various independent approval authorities of the inherent risks associated with the counterparty and assist in determining suitable pricing commensurate with the associated risk.

ii) Credit risk grades

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

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

Each corporate 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 of corporate exposure involves use of the following data.

- Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections.
- 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

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its customers analyzed by segment as well as by credit risk grading.

iii) Generating the term structure of PD

The Bank employs analytical techniques incorporating internal default estimates backed by transition matrices published by external agencies to construct PD term structures that can be applied to each exposure based on the its remaining lifetime. These PD term structures are then adjusted to incorporate the impact of macroeconomic outlook to arrive at a forward looking estimate of PD across the lifetime.

For retail exposure, borrower and loan specific information collected at the time of application, repayment behavior etc. are used to construct risk based segmentation using Chi-square Automatic Interaction Detection (CHAID) (or Decision Tree) technique. Risk segments are constructed to identify and aggregate customers with similar risk characteristics. For each risk segment thus formed, PD term structures are constructed using historical data that can be applied to each exposure based on its remaining lifetime.

Based on consideration of a variety of external actual and forecast information from published sources, the Bank formulates a forward looking adjustment to PD term structures to arrive at forward looking PD estimates across the lifetime using macroeconomic models.

Risk Rating 1
Exceptional - Obligors of unquestioned credit standing at the pinnacle of credit quality.

Risk Rating 2
Excellent - Obligors of the highest quality, presently and prospectively. Virtually no risk in lending to this class, Cash flows reflect exceptionally large and stable margins of protection. Projected cash flows including anticipated credit extensions indicate strong liquidity levels and debt service coverage. Balance Sheet parameters are strong, with excellent asset quality in terms of value and liquidity.

Risk Rating 3
Superior - Typically obligors at the lower end of the high quality range with excellent prospects. Very good asset quality and liquidity. Consistently strong debt capacity and coverage. There could however be some elements, which with a low likelihood might impair performance in the future.

Risk Rating 4
Good - Typically obligors in the high end of the medium range who are definitely sound with minor risk characteristics. Elements of strength are present in such areas as liquidity, stability of margins, cash flows, diversity of assets, and lack of dependence on one type of business.

Risk Rating 5
Satisfactory - These are obligors with smaller margins of debt service coverage and with some elements of reduced strength. Satisfactory asset quality, liquidity, and good debt capacity and coverage. A loss year or declining earnings trend may occur, but the borrowers have sufficient strength and financial flexibility to offset these issues.

Risk Rating 6
Adequate - Obligors with declining earnings, strained cash flow, increasing leverage and/ or weakening market fundamentals that indicate above average risk, such borrowers have limited additional debt capacity, modest coverage, average or below average asset quality and market share. Present borrower performance is satisfactory, but could be adversely affected by developing collateral quality/ adequacy etc.

Risk Rating 7
Very high risk - Generally undesirable business constituting an undue and unwarranted credit risk but not to the point of justifying a substandard classification. No loss of principal or profit has taken place. Potential weakness might include a weakening financial condition, an unrealistic repayment program, inadequate sources of funds, or a lack of adequate collateral, credit information or documentation. The entity is undistinguished and mediocre. No new or incremental credits will generally be considered for this category.

Risk Rating 8
Substandard - Obligors in default and 90 Days Past Due on repayment of their obligations. Unacceptable business credit. Normal repayment is in jeopardy, and there exists well defined weakness in support of the same. The asset is inadequately protected by the current net worth and paying capacity of the obligor or pledged collateral. Specific provision raised as an estimate of potential loss.

Risk Rating 9
Doubtful - Obligors in default and 180 Days Past Due (DPD) on their contracted obligations, however in the opinion of the management recovery/ salvage value against corporate and real estate obligors is a possibility, and hence write-off should be deferred. Full repayment questionable. Serious problems exist to the point where a partial loss of principle is likely. Weaknesses are so pronounced that on the basis of current information, conditions and values, collection in full is highly improbable. Specific provision raised as an estimate of potential loss. However, for retail obligors (except real estate) and credit cards, total loss is expected. A 100% Specific Provisioning must be triggered followed by the write-off process should be effected as per Al Rajhi Bank write-off policy.

Risk Rating 10
Loss - Obligors in default and 360 Days Past Due (DPD) on their obligations. Total loss is expected. An uncollectible assets which does not warrant classification as an active asset. A 100% Specific Provisioning must be triggered followed by the write-off process should be effected as per Al Rajhi Bank write-off policy.

iv) 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.

For Corporate portfolio, the Bank's assessment of significant increase in credit risk is based on facility level except for watch-list accounts, whereby the Bank's assessment is based on counterparty. Significant increase in credit risk assessment for retail loans is carried out at customer level within same product family. All the exposures which are considered to have significantly increased in credit risk are subject to lifetime ECL.

The Bank considers all investment grade debt securities issued by sovereigns including Gulf Corporation Council (GCC) countries to have low credit risk.

v) Determining whether credit risk has increased significantly
In determining whether credit risk has increased significantly since initial recognition, the Bank uses its internal credit risk grading system, external risk ratings, quantitative changes in PDs , delinquency status of accounts, expert credit judgement and, where possible, relevant historical experience.

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition based on quantitative assessment and / or using its expert credit judgment and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

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

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

The Bank classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below: -

Stage 1: for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Bank recognises an allowance based on the 12-month ECL. All accounts at origination would be classified as Stage 1.

Stage 2: for financial instruments where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired, the Bank recognises an allowance for the lifetime ECL for all financings categorized in this stage based on the actual / expected behavioral maturity profile including restructuring or rescheduling of facilities.

Stage 3: for credit-impaired financial instruments, the Bank recognises the lifetime ECL. Default identification process i.e. DPD of 90 or more is assumed to be stage 3.

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

The Bank renegotiates loans 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, loan 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 loan covenants. Both retail and corporate loans are subject to the forbearance policy.

Forbearance is a qualitative indicator of a significant increase in credit risk, and an expectation of forbearance may constitute evidence that an exposure is credit-impaired/in default. A customer needs to demonstrate consistently good payment behavior over a period of 12 months before the exposure is no longer considered to be credit-impaired/ in default.

vii) Definition of 'Default'
The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Bank.

Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

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.

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 for the bank for regulatory purposes.

viii) Incorporation of forward looking information
The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on consideration of a variety of external actual and forecast information from published sources, the Bank formulates a forward looking adjustment to PD term structures to arrive at forward looking PD estimates across the lifetime using macroeconomic models.

The Bank considers scenarios in range of 3-5 years horizon (consistent with forecasts available from public sources), beyond which the long term average macroeconomic conditions prevail. Externally available macroeconomic forecasts from International Monetary Fund (IMF) and Saudi Arabian Monetary Authority (SAMA) are used for making the base case forecast. For other scenarios, adjustments are made to base case forecasts based on expert judgement.

The base case represents a most-likely outcome as published by external sources. The other scenarios represent more optimistic and more pessimistic outcomes.

	Weightage	
Economic Indicators	**2019**	**2018**
GDP growth rate	55.44%	56.29%
Government expenditure to GDP	44.56%	43.71%

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.

ix) Measurement of ECL

The Bank measures an ECL at an individual instrument level taking into account the projected cash flows, PD, LGD, CCF and discount rate.

The key inputs into the measurement of ECL are the term structure of the following variables:

1. probability of default (PD);
2. loss given default (LGD);
3. 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 and estimated prepayment rates.

For Retail portfolio, bank uses internal LGD models to arrive at the LGD estimates. For Corporate portfolio, bank used supervisory estimates of LGD.

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. The period of exposure limits the period over which possible defaults are considered and thus affects the determination of PDs and measurement of ECLs (especially for Stage 2 accounts with lifetime ECL).

x) Credit quality analysis

a) The following table sets out information about the credit quality of financings measured at amortized cost as at 31 December :

2019	12 month ECL (SAR'000)	Life time ECL not credit impaired (SAR'000)	Lifetime ECL credit impaired (SAR'000)	Total (SAR'000)
Carrying amount distribution by Grades				
Grade 1-3 / (Aaa - A3)	13,547,133	-	-	13,547,133
Grade (4-6) / (Baa1 - B3)	44,673,584	3,134,911	-	47,808,495
Grade 7- Watch list / (Caa1 – C)	-	3,104,199	-	3,104,199
Non-performing	-	-	1,687,074	1,687,074
Total Corporate performing and non-performing	58,220,717	6,239,110	1,687,074	66,146,901
Total Retail (un-rated)	187,409,069	2,516,712	629,719	190,555,500
Total Carrying amount	**245,629,786**	**8,755,822**	**2,316,793**	**256,702,401**

2018	12 month ECL (SAR'000)	Life time ECL not credit impaired (SAR'000)	Lifetime ECL credit impaired (SAR'000)	Total (SAR'000)
Carrying amount distribution by Grades				
Grade 1-3 / (Aaa - A3)	8,322,229	-	-	8,322,229
Grade (4-6) / (Baa1 - B3)	44,092,511	12,217,422	-	56,309,933
Grade 7- Watch list / (Caa1 – C)	-	2,918,751	-	2,918,751
Non-performing	-	-	1,686,855	1,686,855
Total Corporate performing and non-performing	52,414,740	15,136,173	1,686,855	69,237,768
Total Retail (un-rated)	166,676,629	3,072,823	603,457	170,352,909
Total Carrying amount	**219,091,369**	**18,208,996**	**2,290,312**	**239,590,677**

xi) Financings

a) The net financing concentration risks and the related provision, by major economic sectors at 31 December are as follows:

2019 Description	Performing (SAR'000)	Non-Performing (SAR'000)	Allowance for impairment (SAR'000)	Net financing (SAR'000)
Commercial	19,661,771	590,056	(424,883)	19,826,944
Industrial	26,775,778	375,395	(283,941)	26,867,232
Building and construction	2,031,147	573,757	(401,434)	2,203,470
Consumer	192,926,177	674,114	(532,585)	193,067,706
Services	12,336,880	103,471	(70,882)	12,369,469
Agriculture and fishing	340,974	-	-	340,974
Others	312,881	-	-	312,881
Total	**254,385,608**	**2,316,793**	**(1,713,725)**	**254,988,676**
12 month and life time ECL not credit impaired	-	-	(5,305,871)	(5,305,871)
Balance	**254,385,608**	**2,316,793**	**(7,019,596)**	**249,682,805**

2018 Description	Performing (SAR'000)	Non-Performing (SAR'000)	Allowance for impairment (SAR'000)	Net financing (SAR'000)
Commercial	17,365,910	746,180	(618,139)	17,493,951
Industrial	28,007,663	774,347	(696,112)	28,085,898
Building and construction	3,442,028	71,682	(82,411)	3,431,299
Consumer	171,255,069	603,423	(470,400)	171,388,092
Services	16,295,853	80,751	(75,584)	16,301,020
Agriculture and fishing	467,960	-	-	467,960
Others	465,882	13,929	(6)	479,805
Total	**237,300,365**	**2,290,312**	**(1,942,652)**	**237,648,025**
12 month and life time ECL not credit impaired	-	-	(5,889,819)	(5,889,819)
Balance	**237,300,365**	**2,290,312**	**(7,832,471)**	**231,758,206**

b) The tables below set out the aging of financing past due but not impaired as at 31 December:

2019	Mutajara (SAR'000)	Installment sale (SAR'000)	Credit cards (SAR'000)	Total (SAR'000)
Age				
up to 30 days	2,825,036	191,728	-	3,016,764
31-60 days	781,204	58,130	22,802	862,136
61-90 days	649,949	36,366	24,870	711,185
Total	**4,256,189**	**286,224**	**47,672**	**4,590,085**
Fair value of collateral	**2,737,767**	**114,208**	**-**	**2,851,975**

2018	Mutajara (SAR'000)	Installment sale (SAR'000)	Credit cards (SAR'000)	Total (SAR'000)
Age				
up to 30 days	5,640,509	180,122	-	5,820,631
31-60 days	338,418	40,829	12,700	391,947
61-90 days	288,367	26,209	16,475	331,051
Total	**6,267,294**	**247,160**	**29,175**	**6,543,629**
Fair value of collateral	**1,835,781**	**81,014**	**-**	**1,916,795**

The Group in the ordinary course of lending activities hold collaterals as security to mitigate credit risk in financings. These collaterals mostly include time, demand, and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. Real estate collaterals against financing are considered as held for sale and included in other assets.

The collaterals are held mainly against commercial and consumer loans and are managed against relevant exposures at their net realizable values. For financial assets that are credit impaired at the reporting period, quantitative information about the collateral held as security is needed to the extent that such collateral mitigates credit risk.

c) The table below sets out gross balances of individually impaired financing, together with the fair value of related collateral held by the Group as at 31 December:

2019	Retail (SAR'000)	Corporate (SAR'000)	Total (SAR'000)
Individually impaired financing	629,719	1,687,074	2,316,793
Fair value of collateral	214,921	522,084	737,005

2018	Retail (SAR'000)	Corporate (SAR'000)	Total (SAR'000)
Individually impaired financing	603,457	1,686,855	2,290,312
Fair value of collateral	176,992	1,971,724	2,148,716

d) The table below stratifies credit exposures from corporate financing by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the financing or the amount committed for loan commitments to the value of the collateral. The gross amounts exclude any impairment allowance.

	2019 (SAR'000)	2018 (SAR'000)
Less than 50%	61,167,858	65,100,456
51-70%	480,738	835,193
71-90%	428,167	1,382,614
91-100%	-	-
More than 100%	4,070,138	1,919,505
Total exposure	**66,146,901**	**69,237,768**

b) Settlement risk

The Bank is also exposed to settlement risk in its dealings with other financial institutions. This risk arises when the Bank pays its side of the transaction to the other bank or counterparty before receiving payment from the third party. The risk is that the third party may not pay its obligation. While these exposures are short in duration, they can be significant. The risk is mitigated by dealing with highly rated counterparties, holding collateral and limiting the size of the exposures according to the risk rating of the counterparty.

c) Risk limit control and mitigation policies

The responsibility for credit risk management is enterprise-wide in scope. Strong risk management is integrated into daily processes, decision making and strategy setting, thereby making the understanding and management of credit risk the responsibility of every business segment.

The following business units within the Bank assist in the credit control process:

- Corporate Credit Unit.
- Credit Administration, Monitoring and Control Unit.
- Remedial Unit.
- Credit Policy Unit.
- Retail Credit Unit.

The monitoring and management of credit risk associated with these financing are made by setting approved credit limits. The Bank manages limits and controls concentrations of credit risk wherever they are identified - in particular, to individual customers and groups, and to industries and countries.

Concentrations of credit risks arise when a number of customers are engaged in similar business activities, 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 risks indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location. The Bank seeks to manage its credit risk exposure through diversification of its financing to ensure there is no undue concentration of risks with to individuals or groups of customers in specific geographical locations or economic sectors.

The Bank manages credit risk by placing limits on the amount of risk accepted in relation to individual customers and groups, and to geographic and economic segments. Such risks are monitored on a regular basis and are subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, economic sector and by country are reviewed at least annually by the executive committee.

Exposure to credit risk is also managed through regular analysis on the ability of customers and potential customers to meet financial and contractual repayment obligations and by revising credit limits where appropriate.

Some other specific control and mitigation measures are outlined below:

i) Collateral

The Bank implements guidelines on the level and quality of specific classes of collateral. The principal collateral types are:

- Mortgages over residential and commercial properties.
- Cash, shares, and general assets for customer.
- Shares for Murabaha (collateralized share trading) transactions.

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as traditional banking products of the Bank.

Documentary and commercial letters of credit - which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying goods to which they relate, and therefore, risk is partially mitigated.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of further financing products, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards

d) Impairment and provisioning policies

The table below sets out the maximum exposure to credit risk at the reporting date without considering collateral or other credit enhancements and includes the off-balance sheet financial instruments involving credit risks as at 31 December:

On-balance sheet items	2019 (SAR'000)	2018 (SAR'000)
Investments, net:		
Murabaha with Saudi Government and SAMA	24,991,978	22,477,145
Sukuk	18,751,109	18,167,620
Due from banks and other financial institutions	**32,058,182**	**32,387,760**
Financing, net		
Corporate	62,959,778	65,455,862
Retail	186,723,027	166,302,344
Total on-balance sheet items	**325,484,074**	**304,790,731**
Off-balance sheet items:		
Letters of credit and acceptances	1,118,090	1,452,658
Letters of guarantee	4,974,179	4,877,161
Irrevocable commitments to extend credit	11,636,094	6,482,436
Total off-balance sheet items	**17,728,363**	**12,812,255**
Maximum exposure to credit risk	**343,212,437**	**317,602,986**

The exposures set out above are based on net carrying amounts as reported in the consolidated statement of financial position.

27-2 Liquidity risks

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay deposits and financing parties and fulfill financing commitments. Liquidity risk can be caused by market disruptions or by credit downgrades, which may cause certain sources of funding to become unavailable immediately. Diverse funding sources available to the Bank help mitigate this risk. Assets are managed with liquidity in mind, maintaining a conservative balance of cash and cash equivalents.

Liquidity risk management process

The Bank's liquidity management process is as monitored by the Bank's Asset and Liabilities Committee (ALCO), and includes:

- Day-to-day funding, managed by Treasury to ensure that requirements can be met, and this includes replenishment of funds as they mature or are invested;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements;
- Managing the concentration and profile of debt maturities;
- Maintaining diversified funding sources; and
- Liquidity management and asset and liability mismatching.

Monitoring and reporting take the form of analyzing cash flows of items with both contractual and non-contractual maturities. The net cash flows are measured to ensure that they are within acceptable ranges. The Treasury / ALCO also monitors the level and type of undrawn lending commitments, usage of overdraft facilities and the potential impact of contingent liabilities such as standby letters of credit and guarantees may have on the Bank's liquidity position.

The tables below summarize the maturity profile of the Bank's assets and liabilities, on the basis of the remaining maturity as of the consolidated statement of financial position date to the contractual maturity date.

Management monitors the maturity profile to ensure that adequate liquidity is maintained. Assets available to meet liabilities and to cover outstanding financing commitments include cash, balances with SAMA and due from banks. Further, in accordance with the Banking Control Law and Regulations issued by SAMA, the Bank maintains a statutory deposit equal to a sum not less than 7% of total customers' deposits, and 4% of total other customers' accounts. In addition to the statutory deposit, the Bank maintains a liquid reserve of not less than 20% of the deposit liabilities, in the form of cash, gold or assets which can be converted into cash within a period not exceeding 30 days. Also, the Bank has the ability to raise additional funds through special financing arrangements with SAMA including deferred sales transactions.

The contractual maturities of financial assets and liabilities as of 31 December based on discounted cash flows are as follows. The table below reflects the expected cash flows indicated by the deposit retention history of the Group. Management monitors a rolling forecast of the Group's liquidity position and cash and cash equivalents on the basis of expected cash flows. This is carried out in accordance with practice and limits set by the Group and based on the pattern of historical deposit movements. In addition, the Group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

2019	Less than 3 months (SAR'000)	3 to 12 months (SAR'000)	1 to 5 years (SAR'000)	Over 5 years (SAR'000)	No Fixed Maturity (SAR'000)	Total (SAR'000)
Assets						
Cash and balance with SAMA and other central banks	10,855,000	-	-	-	28,439,099	39,294,099
Due from banks and other financial institutions	11,494,160	6,575,839	13,988,183	-	-	32,058,182
Financing, net						
Mutajara	13,875,181	11,750,437	12,908,065	3,043,561	-	41,577,244
Installment sale	12,151,486	29,194,865	97,755,730	48,621,920	-	187,724,001
Murabaha	3,771,541	4,221,613	3,878,893	5,356,019	-	17,228,066
Credit cards	1,447,050	731,273	975,171	-	-	3,153,494
Investments, net						
Investment in an associate	-	-	-	-	196,235	196,235
Investments held at amortized cost	2,566,987	-	16,089,945	24,286,155	-	42,943,087
FVSI investments	-	-	800,000	-	1,230,711	2,030,711
FVOCI investments	-	-	-	-	1,672,597	1,672,597
Other assets, net	-	-	-	-	16,208,860	16,208,860
Total Liabilities	**56,161,405**	**52,474,027**	**146,395,987**	**81,307,655**	**47,747,502**	**384,086,576**
Due to banks and other financial institutions	1,885,035	-	-	-	334,569	2,219,604
Demand deposits	-	-	-	-	284,299,851	284,299,851
Customers' time investments	17,095,711	4,578,411	450,331	1,773	-	22,126,226
Other customer accounts	1,569,561	2,072,232	2,337,953	-	-	5,979,746
Other liabilities	-	-	-	-	18,269,492	18,269,492
Total Liabilities	**20,550,307**	**6,650,643**	**2,788,284**	**1,773**	**302,903,912**	**332,894,919**
Gap	**35,611,098**	**45,823,384**	**143,607,703**	**81,305,882**	**(255,156,410)**	**51,191,657**

2018	Less than 3 months (SAR'000)	3 to 12 months (SAR'000)	1 to 5 years (SAR'000)	Over 5 years (SAR'000)	No Fixed Maturity (SAR'000)	Total (SAR'000)
Assets						
Cash and balance with SAMA and other central banks	15,375,000	-	-	-	27,871,043	43,246,043
Due from banks and other financial institutions	10,569,683	8,273,620	12,488,206	-	1,056,251	32,387,760
Financing, net						
Mutajara	14,480,073	15,127,724	11,655,333	2,456,174	-	43,719,304
Installment sale	10,769,129	30,019,044	101,070,050	29,391,728	-	171,249,951
Murabaha	1,193,548	4,462,625	6,381,359	2,792,068	-	14,829,600
Credit cards	1,959,351	-	-	-	-	1,959,351
Investments, net						
Investment in an associate	-	-	-	-	172,753	172,753
Investments held at amortized cost	370,449	213,900	14,118,036	25,142,380	-	39,844,765
FVSI investments	-	1,941,584	-	-	-	1,941,584
FVOCI investments	-	-	-	1,103,463	-	1,103,463
Other assets, net	-	-	-	-	13,576,270	13,576,270
Total Liabilities	**54,717,233**	**60,038,497**	**145,712,984**	**60,885,813**	**42,676,317**	**364,030,844**
Due to banks and other financial institutions	3,951,361	2,583,028	-	-	755,235	7,289,624
Demand deposits	-	-	-	-	268,416,842	268,416,842
Customers' time investments	17,027,753	1,661,472	-	-	-	18,689,225
Other customer accounts	1,662,667	1,359,251	3,781,140	-	-	6,803,058
Other liabilities	**-**	**-**	-	**-**	14,526,229	**14,526,229**
Total	**22,641,781**	**5,603,751**	**3,781,140**	**-**	**283,698,306**	**315,724,978**
Gap	**32,075,452**	**54,434,746**	**141,931,844**	**60,885,813**	**(241,021,989)**	**48,305,866**

The following tables disclose the maturity of contractual financial liabilities on undiscounted cash flows as at 31 December:

2019	Less than 3 months (SAR'000)	3 to 12 months (SAR'000)	1 to 5 years (SAR'000)	Over 5 years (SAR'000)	No Fixed Maturity (SAR'000)	Total (SAR'000)
Due to banks and other financial institutions	2,342,000	-	-	-	334,569	2,676,569
Customer deposits	19,293,271	6,891,825	2,821,521	1,773	284,299,851	313,308,241
Other liabilities	-	-	-	-	18,269,492	18,269,492
Total	**21,635,271**	**6,891,825**	**2,821,521**	**1,773**	**302,903,912**	**334,254,302**

2018	Less than 3 months (SAR'000)	3 to 12 months (SAR'000)	1 to 5 years (SAR'000)	Over 5 years (SAR'000)	No Fixed Maturity (SAR'000)	Total (SAR'000)
Due to banks and other financial institutions	3,951,361	2,583,028	-	-	755,235	7,289,624
Customer deposits	18,690,420	3,020,723	3,781,140	-	268,416,842	293,909,125
Other liabilities	-	-	-	-	14,526,229	14,526,229
Total	**22,641,781**	**5,603,751**	**3,781,140**	**-**	**283,698,306**	**315,724,978**

The cumulative maturities of commitments and contingencies are given in note 16-c-1 of the consolidated financial statements.

27-3 Market risks

The Bank is exposed to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risks arise on profit rate products, foreign currency and mutual fund products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as profit rates, foreign exchange rates and quoted market prices.

Market risk exposures are monitored by Treasury / Credit & Risk department and reported to ALCO on a monthly basis. ALCO deliberates on the risks taken and ensures that they are appropriate.

a. Market risks - speculative operations

The Bank is not exposed to market risks from speculative operations. The Bank is committed to Sharia guidelines which do not permit it to enter into contracts or speculative instruments such as hedging, options, forward contracts and derivatives.

b. Market risks - banking operations

- 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 Bank 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 financial statements at amortized cost. In addition to this, a substantial portion of the Bank's financial liabilities are non-profit bearing.

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

The following table depicts the sensitivity to a reasonably possible change in profit rates, with other variables held constant, on the Bank's consolidated statement of income or shareholders' equity. The sensitivity of the income is the effect of the assumed changes in profit rates on the net income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at 31 December 2019 and 2018. The sensitivity of consolidated shareholders' equity is the same as sensitivity of consolidated income since the Bank does not have fixed rate FVOCI financial assets as at 31 December 2019 and 2018. All the banking book exposures are monitored and analyzed in currency concentrations, and relevant sensitivities are disclosed in SAR million.

2019		SAR in Million			
Currency	**Increase in basis points**	**Sensitivity of gross financing and investment income**			
		As at 31 December	**Average**	**Maximum**	**Minimum**
SAR	+25	241	244	344	227
	Decrease in basis points				
SAR	-25	(241)	(244)	(344)	(227)

2018		SAR in Million			
Currency	**Increase in basis points**	**Sensitivity of gross financing and investment income**			
		As at 31 December	**Average**	**Maximum**	**Minimum**
SAR	+25	201	204	216	193
	Decrease in basis points				
SAR	-25	(201)	(204)	(216)	(193)

Profit rate movements affect reported consolidated shareholders'equity through retained earnings, i.e. increases or decreases in financing and investment income.

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

The Bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market profit rates on its financial position and cash flows.

The Board sets limits on the level of mismatch of commission rate repricing that may be undertaken, which is monitored daily by Bank Treasury.

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

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

31 December 2019	Less than 3 months (SAR'000)	3 to 6 months (SAR'000)	6 to 12 months (SAR'000)	1 to 5 years (SAR'000)	Over 5 years (SAR'000)	Non Commission Sensitive (SAR'000)	Total (SAR'000)
Assets							
Cash and balance with SAMA and other central banks	10,854,472	-	-	-	-	28,439,627	39,294,099
Due from banks and other financial institutions	10,479,978	357,348	6,543,435	14,677,421	-	-	32,058,182
Investments, net							
Investment in an associate	-	-	-	-	-	196,235	196,235
Investments held at amortized cost	26,001,235	1,252,000	-	-	13,956,318	1,733,534	42,943,087
FVSI investments	-	800,000	-	-	-	1,230,711	2,030,711
FVOCI investments	-	-	-	-	-	1,672,597	1,672,597
Financing, net							
Mutajara	16,244,991	14,699,701	4,218,431	4,609,125	1,804,996	-	41,577,244
Installment sale	18,271,988	16,132,170	20,059,435	93,604,177	39,656,231	-	187,724,001
Murabaha	7,598,931	5,290,277	23,372	3,217,328	1,098,158	-	17,228,066
Credit cards	1,447,050	243,758	487,515	975,171	-	-	3,153,494
Other assets	-	-	-	-	-	16,208,860	16,208,860
Total Assets	**90,898,645**	**38,775,254**	**31,332,188**	**117,083,222**	**56,515,703**	**49,481,564**	**384,086,576**
Liabilities							
Due to banks and other financial institutions	1,677,579	-	-	-	-	542,025	2,219,604
Customer deposits	-	-	-	-	-	284,299,851	284,299,851
Customers' time investments	17,102,278	3,001,418	1,577,663	444,867	-	-	22,126,226
Other customer accounts	-	-	-	-	-	5,979,746	5,979,746
Other liabilities	-	-	-	-	-	18,269,492	18,269,492
Total liabilities	**18,779,857**	**3,001,418**	**1,577,663**	**444,867**	**-**	**309,091,114**	**332,894,919**
Gap	**72,118,788**	**35,773,836**	**29,754,525**	**116,638,355**	**56,515,703**	**(259,609,550)**	**51,191,657**
Profit Rate Sensitivity – On consolidated statement of financial position	72,118,788	35,773,836	29,754,525	116,638,355	56,515,703	(259,609,550)	51,191,657
Profit Rate Sensitivity - Off consolidated statement of financial Position	167,512	24,528	70,934	66,574	5,697	-	335,245
Total Profit Rate Sensitivity Gap	**71,951,276**	**35,749,308**	**29,683,591**	**116,571,781**	**56,510,006**	**(259,609,550)**	**50,856,412**
Cumulative Profit Rate Sensitivity Gap	**71,951,276**	**107,700,584**	**137,384,175**	**253,955,956**	**310,465,962**	**50,856,412**	**101,712,823**

31 December 2018	Less than 3 months (SAR'000)	3 to 6 months (SAR'000)	6 to 12 months (SAR'000)	1 to 5 years (SAR'000)	Over 5 years (SAR'000)	Non Commission Sensitive (SAR'000)	Total (SAR'000)
Assets							
Cash and balance with SAMA and other central banks	35,112,408	-	-	-	-	8,133,635	43,246,043
Due from banks and other financial institutions	11,306,178	987,681	7,810,067	11,227,583	-	1,056,251	32,387,760
Investments, net							
Investment in an associate	-	-	-	-	-	172,753	172,753
Investments held at amortized cost	23,952,560	-	-	13,318,036	2,574,169	-	39,844,765
Investments held as FVSI	-	-	-	-	1,941,584		1,941,584
FVOCI investments	-	-	-	-	1,103,463	-	1,103,463
Financing, net							
Mutajara	17,239,834	19,924,825	3,958,429	2,596,216	-	-	43,719,304
Installment sale	13,409,580	13,669,220	21,812,332	98,684,882	23,673,937	-	171,249,951
Murabaha	4,064,638	4,406,381	182	5,499,608	858,791	-	14,829,600
Credit cards	1,959,351	-	-	-	-	-	1,959,351
Other assets	-	-	-	-	-	13,576,270	13,576,270
Total Assets	**107,044,549**	**38,988,107**	**33,581,010**	**131,326,325**	**30,151,944**	**22,938,909**	**364,030,844**
Liabilities							
Due to banks and other financial institutions	6,534,389	-	-	-	-	755,235	7,289,624
Customer deposits	-	-	-	-	-	268,416,843	268,416,843
Customers' time investments	17,027,753	213,057	1,448,415	-	-	-	18,689,225
Other customer accounts	1,362,776	311,575	589,356	4,539,350	-	-	6,803,057
Other liabilities	-	-	-	-	-	14,526,229	14,526,229
Total liabilities	**24,924,918**	**524,632**	**2,037,771**	**4,539,350**	**-**	**283,698,307**	**315,724,978**
Gap	**82,119,631**	**38,463,475**	31,543,239	**126,786,975**	**30,151,944**	**(260,759,398)**	**48,305,866**
Profit Rate Sensitivity - On Statement of Financial Positions	82,119,631	38,463,475	31,543,239	126,786,975	30,151,944	(260,759,398)	48,305,866
Profit Rate Sensitivity - Off Statement of Financial Positions	439,043	-	-	-	-	-	439,043
Total Profit Rate Sensitivity Gap	**81,680,588**	**38,463,475**	**31,543,239**	**126,786,975**	**30,151,944**	**(260,759,398)**	**47,866,823**
Cumulative Profit Rate Sensitivity Gap	**81,680,588**	**120,144,063**	**151,687,302**	**278,474,277**	**308,626,221**	**47,866,823**	**95,733,646**

- Foreign currency risks

The tables below summarize the Bank's exposure to foreign currency exchange rate risk at 31 December 2019 and 2018 and the concentration of currency risks, Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency:

2019	UAE Dirham (SAR'000)	Japanese Yen (SAR'000)	Euro (SAR'000)	Malaysian Ringgit (SAR'000)	US Dollar (SAR'000)	Pound Sterling (SAR'000)	Other (SAR'000)	Total (SAR'000)
ASSETS								
Cash and cash equivalents	34,104	-	31,868	153,650	335,903	21,963	608,879	1,186,367
Due from banks and other financial institutions	63,357	7,508	197,512	518,468	3,120,698	24,183	102,570	4,034,296
Financing, net	-	-	-	4,846,668	5,531,037	-	4,504,063	14,881,768
Investments, net	-	-	367	894,904	2,007,106	-	255,369	3,157,746
Fixed assets	2,229	-	9,528	65,199	392,337	1,024	54,232	524,549
Other assets, net	-	-	1,889	171,338	74,963	831	21,534	270,555
Total Assets	**99,690**	**7,508**	**241,164**	**6,650,227**	**11,462,044**	**48,001**	**5,546,647**	**24,055,281**
LIABILITIES								
Due to banks and other financial institutions	193	-	61,892	129,399	375,153	17	(622,790)	(56,136)
Customers' deposits	8,861	5,013	114,609	5,429,591	3,153,602	40,639	5,083,655	13,835,970
Other liabilities	4,369	707	110,713	103,126	740,687	9,023	237,542	1,206,167
Total Liabilities	**13,423**	**5,720**	**287,214**	**5,662,116**	**4,269,442**	**49,679**	**4,698,407**	**14,986,001**
Net	**86,267**	**1,788**	**(46,050)**	**988,111**	**7,192,602**	**(1,678)**	**848,240**	**9,069,280**

2018	UAE Dirham (SAR'000)	Japanese Yen (SAR'000)	Euro (SAR'000)	Malaysian Ringgit (SAR'000)	US Dollar (SAR'000)	Pound Sterling (SAR'000)	Other (SAR'000)	Total (SAR'000)
ASSETS								
Cash and cash equivalents	25,946	-	29,291	193,088	568,393	15,538	504,016	1,336,272
Due from banks and other financial institutions	117,748	5,302	145,528	520,081	1,979,909	30,803	721,623	3,520,994
Financing, net	-	-	-	4,564,609	5,077,371	-	3,778,869	13,420,849
Investments, net	-	-	375	1,305,296	1,132,989	-	255,390	2,694,050
Fixed assets	1,226	-	6,578	41,423	269,965	993	36,782	356,967
Other assets, net	-	-	1,258	174,711	63,244	332	17,209	256,754
Total Assets	**144,920**	**5,302**	**183,030**	**6,799,208**	**9,091,871**	**47,666**	**5,313,889**	**21,585,886**
LIABILITIES								
Due to banks and other financial institutions	71	-	5,169	569,557	3,304,930	17	(564,139)	3,315,605
Customers' deposits	9,629	2,284	109,079	5,146,634	1,268,627	48,735	4,863,308	11,448,296
Other liabilities	17,305	699	97,032	117,000	695,523	8,882	196,799	1,133,241
Total Liabilities	**27,005**	**2,983**	**211,280**	**5,833,191**	**5,269,080**	**57,634**	**4,495,968**	**15,897,142**
Net	**117,915**	**2,319**	**(28,250)**	**966,017**	**3,822,791**	**(9,968)**	**817,921**	**5,688,744**

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Bank management has set limits on positions by currencies, which are regularly monitored to ensure that positions are maintained within the limits.

The table below shows the currencies to which the Bank has a significant exposure as at 31 December 2019 and 2018, on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonably possible movements of the currency rate against SAR, with all other variables held constant, on the consolidated statement of income (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity. A positive effect shows a potential increase in the consolidated statement of income or consolidated shareholders' equity, whereas a negative effect shows a potential net reduction in the consolidated statement of income or consolidated statement of changes in shareholders' equity.

(SAR in million)

Currency Exposures As at 31 December 2019	Change in Currency Rate in %	Effect on Net Income	Effect on Equity
AED	+/-2	1,899	1,899
USD	+/-2	140,917	140,917
EUR	+/-5	(153)	(153)
INR	+/-5	(227)	(227)
PKR	+/-5	249	249

(SAR in million)

Currency Exposures As at 31 December 2018	Change in Currency Rate in %	Effect on Net Income	Effect on Equity
AED	+/-2	2,358	2,358
USD	+/-2	76,146	76,146
EUR	+/-5	(768)	(768)
INR	+/-5	1,813	1,813
PKR	+/-5	547	547

Currency position

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

On-balance sheet items	2019 SAR '000 Long/(short)	2018 SAR '000 Long/(short)
US Dollar	7,192,602	3,822,791
Japanese Yen	1,788	2,319
Euro	(46,050)	(28,250)
Pound Sterling	(1,678)	(9,969)
UAE Dirham	86,267	117,914
Malaysian Ringgit	988,111	966,017
Others	848,240	817,921
Total	**9,069,280**	**5,688,743**

c. Price risk

The Bank has certain investments which are carried at fair value through the income statement (FVSI) and fair value through other comprehensive income (FVOCI). Price risk arises due to changes in these investments.

As these investments are in a limited number of funds and are not significant to the total investment portfolio, the Bank monitors them periodically and determines the risk of holding them based on changes in market prices.

Other investments have little or no risks as these are bought for immediate sales. Investments are made only with a confirmed sale order, and therefore involve minimal risk.

- Equity Price Risk

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

The effect on the Bank's equity investments held as FVOCI due to reasonably possible changes in equity indices, with all other variables held constant, as at 31 December is as follows:

	2019		2018	
Local Market Indices	**Change in Equity price %**	**Effect in SAR Million**	**Change in Equity price %**	**Effect in SAR Million**
Local Share Equities	+ /- 10	+/- 164,824	+ /- 10	+/- 107,910

d. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems, and external events.

Operational risk is inherent in most of the Bank's activities. This necessitates an integrated approach to the identification, measurement and monitoring of operational risk.

An Operational Risk Management Unit (ORMU) has been established within the Credit and Risk Management Group, which facilitates the management of Operational Risk within the Bank. ORMU facilitates the management of Operational Risk by setting policies, developing systems, tools and methodologies, overseeing their implementation and use within the business units and providing ongoing monitoring and guidance across the Bank.

The three primary operational risk management processes in the Bank are Risk Control Self Assessment, Operational Loss Database and eventual implementation of Key Risk Indicators which are designed to function in a mutually reinforcing manner.

28. GEOGRAPHICAL CONCENTRATION

a) The distribution by the geographical region of the major categories of assets, liabilities, commitments, contingencies and credit exposure accounts as of 31 December is as follows:

2019	Kingdom of Saudi Arabia (SAR'000)	Other GCC and Middle East (SAR'000)	Europe (SAR'000)	North America (SAR'000)	South East Asia (SAR'000)	Other Countries (SAR'000)	Total (SAR'000)
Assets							
Cash and balances with SAMA and other central banks	39,206,336	69,209	-	-	18,554	-	39,294,099
Due from banks and other financial institutions	8,801,478	19,134,342	2,358,919	151,310	845,040	767,093	32,058,182
Financing, net							
Mutajara	39,952,031	1,104,910	520,303	-	-	-	41,577,244
Installment sale	183,365,159	3,035,239	-	-	1,323,603	-	187,724,001
Murabaha	11,574,137	2,131,177	-	-	3,522,752	-	17,228,066
Credit cards	3,146,433	7,061	-	-	-	-	3,153,494
Investments, net							
Investment in an associate	196,235	-	-	-	-	-	196,235
Investments held at amortized cost	40,980,924	1,008,885	-	-	953,278	-	42,943,087
FVSI Investments	1,406,111	624,233	367	-	-	-	2,030,711
FVOCI investments	1,651,690	20,907	-	-	-	-	1,672,597
Total assets	**330,280,534**	**27,135,963**	**2,879,589**	**151,310**	**6,663,227**	**767,093**	**367,877,716**
Liabilities							
Due to banks and other financial institutions	1,338,054	470,707	-	384,922	25,921	-	2,219,604
Customer deposits	302,177,992	5,061,753	17,726	4,544	5,125,688	18,120	312,405,823
Total liabilities	**303,516,046**	**5,532,460**	**17,726**	**389,466**	**5,151,609**	**18,120**	**314,625,427**
Commitments and contingencies	**16,455,181**	**633,737**	**99,182**	**94,220**	**421,820**	**121,058**	**17,825,198**
Credit exposure (stated at credit equivalent value)	**9,727,912**	**-**	**-**	**-**	**1,908,182**	**-**	**11,636,094**

2018	Kingdom of Saudi Arabia (SAR'000)	Other GCC and Middle East (SAR'000)	Europe (SAR'000)	North America (SAR'000)	South East Asia (SAR'000)	Other Countries (SAR'000)	Total (SAR'000)
Assets							
Cash and balances with SAMA and other central banks	43,169,276	56,311	-	-	20,456	-	43,246,043
Due from banks and other financial institutions	10,803,907	19,835,928	755,337	61,154	919,489	11,945	32,387,760
Financing, net							
Mutajara	40,595,689	1,023,541	2,100,074	-	-	-	43,719,304
Installment sale	166,866,283	2,885,814	-	-	1,497,854	-	171,249,951
Murabaha	9,734,211	1,932,928	-	-	3,162,461	-	14,829,600
Credit cards	1,952,552	5,575	-	-	1,224	-	1,959,351
Investments, net							
Investment in an associate	172,753	-	-	-	-	-	172,753
Investments held at amortized cost	38,132,001	349,095	-	-	1,363,669	-	39,844,765
FVSI Investments	1,896,758	33,234	375	-	11,217	-	1,941,584
FVOCI investments	1,103,463	-	-	-	-	-	1,103,463
Total assets	**314,426,893**	**26,122,426**	**2,855,786**	**61,154**	**6,976,370**	**11,945**	**350,454,574**
Liabilities							
Due to banks and other financial institutions	6,401,763	44,133	-	329,267	514,461	-	7,289,624
Customer deposits	284,200,248	4,847,634	-	-	4,860,064	1,179	293,909,125
Total liabilities	**290,602,011**	**4,891,767**	**-**	**329,267**	**5,374,525**	**1,179**	**301,198,749**
Commitments and contingencies	**12,623,480**	**98,315**	**2,262**	**-**	**88,198**	**-**	**12,812,255**
Credit exposure (stated at credit equivalent value)	**4,401,104**	**-**	**-**	**-**	**2,081,332**	**-**	**6,482,436**

b) The distributions by geographical concentration of non-performing financing and allowance for impairment of financing are as follows:

2019	Kingdom of Saudi Arabia (SAR'000)	GCC and Middle East (SAR'000)	South East of Asia (SAR'000)	Total (SAR'000)
Non-performing				
Mutajara	1,642,684	5,420	38,970	1,687,074
Installment sale	538,829	24,736	18,412	581,977
Murabaha	-	-	-	-
Credit cards	47,742	-	-	47,742
Allowance for impairment of financing				
Mutajara	(1,285,340)	(1,088)	(19,427)	(1,305,855)
Installment sale	(522,160)	(7,734)	(497)	(530,391)
Murabaha	(144,794)	-	(10,751)	(155,545)
Credit cards	(9,083)	-	(287)	(9,370)

2018	Kingdom of Saudi Arabia (SAR'000)	GCC and Middle East (SAR'000)	South East of Asia (SAR'000)	Total (SAR'000)
Non-performing				
Mutajara	991,751	5,959	26,610	1,024,320
Installment sale	559,630	14,942	16,969	591,541
Murabaha	536,865	108,621	17,084	662,570
Credit cards	11,874	-	7	11,881
Allowance for impairment of financing				
Mutajara	(837,349)	(2,066)	(2,958)	(842,373)
Installment sale	(453,000)	(10,185)	(4,244)	(467,429)
Murabaha	(504,296)	(108,500)	(17,084)	(629,880)
Credit cards	(2,970)	-	-	(2,970)

Refer to Note 7-1b for performing financing.

29. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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 instrument (i.e. without modification or additions).
- **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.
- **Level 3:** valuation techniques for which any significant input is not based on observable market data.

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

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

Carrying amounts and fair value:

The following table shows the carrying amounts and fair values of financial assets and financial liabilities as at 31 December, including their levels in the fair value hierarchy (refer note 2d (ii)). 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.

2019	Carrying value	Level 1	Level 2	Level 3	Total
Financial assets					
Financial assets measured at fair value					
FVSI Investments – Mutual funds	1,230,711	-	1,230,711	-	1,230,711
FVOCI equity investments	1,672,597	1,648,243	-	24,355	1,672,598
FVSI Sukuk	800,000			800,000	800,000
Financial assets not measured at fair value					
Due from banks and other financial institutions	32,058,182	-	-	32,300,842	32,300,842
Investments held at amortized cost					
- Murabaha with Saudi Government and SAMA	24,991,978	-	-	25,268,177	25,268,177
- Sukuk	17,973,379	-	-	18,357,588	18,357,588
Gross Financing	256,702,401			275,942,492	275,942,492
Total	**335,429,248**	**1,648,243**	**1,230,711**	**352,693,454**	**355,572,408**
Financial liabilities					
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	2,219,604	-	-	2,219,642	2,219,642
Customers' deposits	312,405,823	-	-	312,405,823	312,405,823
Total	**314,625,427**	**-**	**-**	**314,625,465**	**314,625,465**

2018	Carrying value	Level 1	Level 2	Level 3	Total
Financial assets					
Financial assets measured at fair value					
FVSI Investments – Mutual funds	1,141,584	-	1,141,584	-	1,141,584
FVOCI equity investments	1,103,463	1,079,101	-	24,362	1,103,463
FVSI Sukuk	800,000	-	-	800,000	800,000
Financial assets not measured at fair value					
Due from banks and other financial institutions	32,387,760	-	-	32,495,110	32,495,110
Investments held at amortized cost					
- Murabaha with Saudi Government and SAMA	22,477,145	-	-	22,675,612	22,675,612
- Sukuk	17,395,957	-	-	17,404,968	17,404,968
Gross Financing	239,590,677	-	-	242,364,635	242,364,635
Total	**314,896,586**	**1,079,101**	**1,141,584**	**315,764,687**	**317,985,372**
Financial liabilities					
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	7,289,624	-	-	7,287,557	7,287,557
Customers' deposits	293,909,125	-	-	293,909,125	293,909,125
Total	**301,198,749**	**-**	**-**	**301,196,682**	**301,196,682**

FVSI investments classified as level 2 include mutual funds, the fair value of which is determined based on the latest reported net assets value (NAV) as at the date of statement of consolidated financial position.

The level 3 financial assets measured at fair value represent investments recorded at cost. The carrying value of these investments approximates fair value.

Gross financing classified as level 3 has been valued using expected cash flows discounted at relevant SIBOR as at 31 December 2019 and 2018. Investments held at amortized cost, due to / from banks and other financial institutions have been valued using the actual cash flows discounted at relevant SIBOR/ SAMA murabaha rates as at 31 December 2019 and 2018.

The value obtained from the relevant valuation model may differ from the transaction price of a financial instrument. The difference between the transaction price and the model value, commonly referred to as 'day one profit and loss', is either amortized over the life of the transaction, deferred until the instrument's fair value can be determined using market observable data, or realized through disposal. Subsequent changes in fair value are recognized immediately in the consolidated statement of income without reversal of deferred day one profits and losses.

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

30. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank transacts business with related parties. The related party transactions are governed by limits set by the Banking Control Law and the regulations issued by SAMA. The nature and balances resulting from such transactions as at and for the year ended 31 December are as follows:

Related parties	2019 (SAR'000)	2018 (SAR'000)
Members of the Board of Directors		
Mutajara	67,680	76,404
Contingent liabilities (*)	20	46,258
Current accounts	320,085	219,330
Companies and establishments guaranteed by members of the Board of Directors		
Mutajara	7,244,210	8,040,701
Contingent liabilities (*)	877,158	952,343
Associate		
Contributions receivable	142,152	252,706
Payable against claims	194,312	144,640
Bank balances	332,713	274,705

(*) = off balance sheet items.

Income and expenses pertaining to transactions with related parties included in the consolidated financial statements for the years ended 31 December are as follows:

	2019 (SAR'000)	2018 (SAR'000)
Income from financing and other financial assets	135,422	139,496
Mudaraba Fees	79,316	68,272
Employees' salaries and benefits (air tickets)	4,297	4,142
Rent and premises related expenses	5,521	2,238
Contribution – policies written	861,880	1,059,392
Claims incurred and notified during the period	662,212	900,207
Claims paid	615,901	905,840
Board of Directors' remunerations	6,140	5,945

The amounts of compensations recorded in favor of or paid to the Board of Directors and the executive management personnel during the years ended 31 December are as follows:

	2019 (SAR'000)	2018 (SAR'000)
Short-term benefits	99,533	85,579
Provision for employees' end of service benefits	10,669	11,536

The executive management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

31. MUDARABA FUNDS

Mudaraba funds comprise the following as at 31 December:

	2019 (SAR'000)	2018 (SAR'000)
Customers' Mudaraba and investments	23,255,708	21,070,580
Total	23,255,708	21,070,580

Mudaraba and investments accounts represents customers' investment portfolio managed by Al Rajhi Capital Company and are considered as off balance sheet. Consistent with the accounting policies of the Group, such balances are not included in the consolidated financial statements as these are held by the Group in a fiduciary capacity.

32. SPECIAL COMMISSIONS EXCLUDED FROM THE CONSOLIDATED STATEMENT OF INCOME

The following represents the movements in charities account, which is included in other liabilities (see note 13) for the year ended 31 December:

	2019 (SAR'000)	2018 (SAR'000)
Balance at beginning of the year	56,350	16,854
Additions during the year	52,691	40,520
Payments made during the year	(98,047)	(1,024)
Balance at end of the year	10,994	56,350

33. INVESTMENT MANAGEMENT SERVICES

The Group offers investment services to its customers. The Group has established a number of Mudaraba funds in different investment aspects. These funds are managed by the Group's Investment Department, and a portion of the funds is also invested in participation with the Group. The Group also offers investment management services to its customers through its subsidiary, which include management of funds with total assets under management of SAR 42,084 million (2018: SAR 41,294 million). The mutual funds are not controlled by the Group and neither are under significant influence to be considered as associates / subsidiaries. Mutual funds' financial statements are not included in the consolidated financial statements of the Group. The Group's share of investments in these funds is included under investments, and is disclosed under related party transactions. Funds invested by the Group in those investment funds amounted to SAR 981 million at 31 December 2019 (2018: SAR 1,142 million).

34. CAPITAL ADEQUACY

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

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management. SAMA requires the banks to hold the minimum level of the regulatory capital and also to maintain a ratio of total regulatory capital to the risk-weighted assets at or above 8%.

The Bank monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Bank's eligible capital with its consolidated statement of financial position, commitments and contingencies, to reflect their relative risk as of 31 December:

	2019 (SAR'000)	2018 (SAR'000)
Credit risk weighted assets	234,299,968	222,309,112
Operational risk weighted assets	30,784,119	28,094,351
Market risk weighted assets	7,236,637	4,102,847
Total Pillar I - risk weighted assets	**272,320,724**	**254,506,310**

	2019 (SAR'000)	2018 (SAR'000)
Tier I – capital	51,191,657	48,305,866
Tier II capital	2,928,750	2,778,864
Total tier I & II capital	**54,120,407**	**51,084,730**
Capital Adequacy Ratio %		
Tier I ratio	18.80%	18.98%
Tier I and II ratio	19.87%	20.07%

35. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The new and amended standards and interpretations that are issued as listed below, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group is currently assessing the impact of these standards on the future financial statements and intends to adopt these new and amended standards, if applicable, when they become effective.

- IFRS 17 Insurance Contracts
- Amendments to IFRS 3: Definition of a Business
- Amendments to IAS 1 and IAS 8: Definition of Material

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e. life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2022, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not expected to have a significant impact on the Group's consolidated financial statements.

Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material is not expected to have a significant impact on the Group's financial statements.

36. SUBSEQUENT EVENTS

The Board of Directors proposed, on 2nd of February 2020, a distribution of final dividends to the shareholders for the year amounting to SAR 3,750 million, of SAR 1.5 per share.

37. RESTATEMENT AND RECLASSIFICATION OF PRIOR YEAR FIGURES

a. Zakat

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 consolidated statement of income. Zakat is not accounted for as income tax, and as such no deferred tax is calculated relating to zakat.

The change in the accounting treatment for zakat (as explained in note 2) has the following impact on the line items of the consolidated statement of income, consolidated statement of financial position and consolidated statement of changes in shareholders' equity.

As at and for the year ended 31 December 2018:

Financial statement impacted	Account	As previously stated as at 31 December 2018 (given the retrospective effect of bonus share issued) SAR'000	Effect of restatement SAR'000	As restated as at 31 December 2018 SAR'000
Consolidated statement of changes in shareholders' equity	Provision for zakat (retained earnings)	6,367,949	(6,367,949)	-
Consolidated statement of income	Zakat	-	6,367,949	6,367,949
Consolidated statement of income	Earnings per share	4.12	(2.55)	1.57

There has been no impact on the Group's retained earnings and total shareholders' equity balances as at 1 January 2018 as a result of this change in accounting for Zakat.

As a major event during 2018, the Bank reached a settlement agreement with the General Authority for Zakat and Income Tax (GAZT), to settle the Zakat liability amounting to SAR 5,405,270,925 for the years up to 31 December 2017. The settlement agreement required the Bank to settle 20% of the agreed zakat liability in 2018, and the remaining will be divided equally over the period of five years. Accordingly, the aforementioned zakat liability was re-classified from other reserves to other liabilities and was charged to the consolidated statement of income.

b. Capitalization of property and equipment

The Bank has performed an analysis of capital work in progress reported under property and equipment in the consolidated statement of financial position. As a result of that analysis, the management identified certain assets amounting to SAR 1,902 million that were not capitalized on a timely basis which has resulted in an understatement of depreciation expenses in the previous years.

The correction of the above error has resulted in the following impact on the line items of the consolidated statement of income, consolidated statement of financial position and consolidated statement of changes in shareholders' equity as detailed below:

As at 1 January 2018:

Financial statement impacted	Account	As previously stated as at 1 January 2018 SAR'000	Effect of Restatement SAR'000	As restated as at 1 January 2018 SAR'000
Consolidated statement of financial position	Property and equipment	7,858,127	(87,187)	7,770,940
Consolidated statement of changes in shareholders' equity	Retained earnings	13,906,736	(87,187)	13,819,549

As at and for the year ended 31 December 2018:

Financial statement impacted	Account	As previously stated as at and for the year ended 31 December 2018 (given the retrospective effect of bonus share issued)SAR'000	Effect ofRestatement SAR'000	As restated as at and for year ended 31 December 2018 SAR'000
Consolidated statement of financial position	Property and equipment	8,897,587	(248,152)	8,649,435
Consolidated statement of changes in shareholders' equity	Retained earnings	12,747,323	(248,152)	12,499,171
Consolidated statement of income	Depreciation	442,171	160,965	603,136
Consolidated statement of income	Earnings per share	4.12	(0.06)	4.06

c. Reclassifications

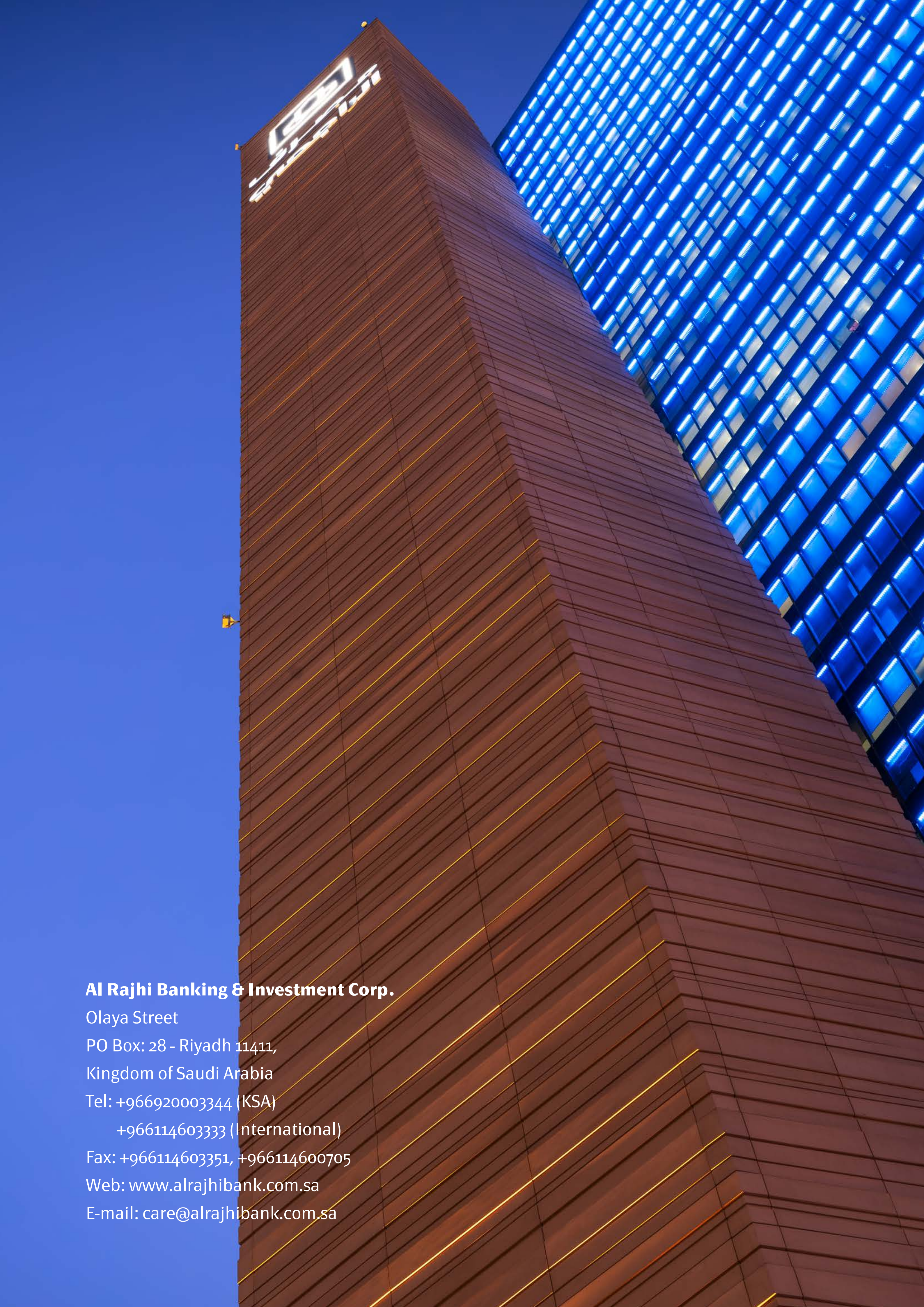
Financing related fee amortization, which had previously been included in fees from banking services, is now included in gross financing and investment income. The change was made to reflect financing related fee amortization as a yield adjustment to gross financing income. Accordingly, the previously reported amounts in the consolidated financial statements for the year ended 31 December 2018 have been reclassified to conform to the current year presentation and therefore, this change increases the previously reported gross financing and investment income by SAR 1,234 million and reduces the fee from banking services accordingly. In addition, an amount of SAR 1,580 million has been reclassified from financing to due from banks and other financial institutions as at 31 December 2018.

d. Other adjustment

The Bank has conducted a review of the timing of the recognition of up-front fees and financing income relating to retail credit products. As a result of the review, the method of the application of the accounting policy on timing of the recognition of up-front fees and financing income has been amended to appropriately reflect the systematic deferral of the recognition of such income. Based on materiality considerations, an adjustment of SAR 799.4 million was only made to the opening retained earnings as at 1 January 2018, with a corresponding adjustment to deferred income as at that date.

38. APPROVAL OF THE BOARD OF DIRECTORS

The consolidated financial statements were approved by the Board of Directors on 23 Jumada Al Thani 1441H (corresponding to 17 February 2020).



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