THE SAUDI INVESTMENT BANK
(A Saudi joint stock company)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As of and for the nine month period ended September 30, 2020

(Unaudited)

KPMG Al Fozan & Partners
Certified Public Accountants

Building a better working world

Independent Auditors' Report on Review of the Interim Condensed Consolidated Financial Statements to the Shareholders of The Saudi Investment Bank (A Saudi Joint Stock Company)

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of **The Saudi Investment Bank** ("the Bank") and its subsidiaries (collectively referred to as "the Group") as at 30 September 2020, and the interim consolidated statements of income and comprehensive income for the three-month and nine-month periods then ended and the interim consolidated statements of changes in equity and cash flows for the nine-month period then ended, and other explanatory notes (the "interim condensed consolidated financial statements"). Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with the International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, *"Review of Interim Financial Information Performed by the Independent Auditor of the Entity"*, as endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 as endorsed in the Kingdom of Saudi Arabia.

Other Regulatory Matters

As required by the Saudi Arabian Monetary Authority ("SAMA"), certain capital adequacy information has been disclosed in note 20 to the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note 20 to the relevant analysis prepared by the Bank for its submission to SAMA and found no material inconsistencies.

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18 Rabi' Al Awwal, 1442H
(4 November 2020)

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

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
Amounts in SAR'000

	Notes	Sep. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Sep. 30, 2019 (Unaudited)
ASSETS				
Cash and balances with SAMA	5a	5,835,977	10,218,816	7,216,363
Due from banks and other financial institutions, net	6a,18	1,669,743	3,028,515	1,145,273
Investments	7a,18	29,240,823	26,175,480	26,119,295
Positive fair values of derivatives	15a,18	1,065,214	1,305,076	1,150,412
Loans and advances, net	8a,18	57,722,734	57,112,907	57,626,310
Investments in associates	9b	845,299	994,298	982,151
Other real estate		446,678	457,679	540,009
Property and equipment, net	10a	1,090,975	1,134,495	1,148,517
Information Technology intangible assets, net	10b	271,778	254,336	250,285
Other assets, net	11a	149,286	132,994	119,988
Total assets		98,338,507	100,814,596	96,298,603
LIABILITIES AND EQUITY				
Liabilities				
Due to banks and other financial institutions, net	12a,18	19,430,684	13,788,191	13,386,043
Customers' deposits	13,18	59,840,969	69,058,054	64,963,537
Negative fair values of derivatives	15a,18	328,018	315,519	277,460
Term loans	14,18	2,017,486	2,011,626	2,012,800
Other liabilities	11c	1,914,811	1,634,199	1,699,739
Total liabilities		83,531,968	86,807,589	82,339,579
Equity				
Share capital	23a	7,500,000	7,500,000	7,500,000
Statutory reserve		4,988,000	4,988,000	4,928,000
Treasury shares	24	(1,041,067)	(1,041,067)	(1,041,067)
Other reserves	7e	491,412	329,977	163,846
Retained earnings		868,194	230,097	408,245
Shareholders' equity		12,806,539	12,007,007	11,959,024
Tier I Sukuk	22	2,000,000	2,000,000	2,000,000
Total equity		14,806,539	14,007,007	13,959,024
Total liabilities and equity		98,338,507	100,814,596	96,298,603

The accompanying notes 1 to 27 form an integral part of these interim condensed consolidated financial statements.

THE SAUDI INVESTMENT BANK
(A Saudi joint stock company)

INTERIM CONSOLIDATED STATEMENT OF INCOME (Unaudited)
Amounts in SAR'000

	Notes	Three month period ended Sep. 30, 2020	Three month period ended Sep. 30, 2019	Nine month period ended Sep. 30, 2020	Nine month period ended Sep. 30, 2019
Special commission income		778,873	980,766	2,558,940	2,950,373
Special commission expense		203,410	414,636	791,559	1,243,171
Net special commission income		575,463	566,130	1,767,381	1,707,202
Fee income from banking services, net		91,883	78,575	219,696	234,768
Exchange income, net		43,671	47,305	134,224	117,569
Dividend income		-	-	14	-
Unrealized fair value through profit and loss		(5,939)	(6,229)	(20,107)	(10,681)
Realized fair value through profit and loss		-	330	3,542	2,261
Gains on FVOCI debt securities, net		374	43,525	31,713	43,720
Other income	9bi	19,467	9,710	19,470	9,800
Total operating income		724,919	739,346	2,155,933	2,104,639
Salaries and employee-related expenses		164,703	158,450	502,844	456,738
Rent and premises related expenses		29,136	34,710	93,833	100,073
Depreciation and amortization		36,193	37,022	110,159	106,869
Other general and administrative expenses	25b	62,104	67,165	208,917	216,624
Operating expenses before provisions for credit and other losses		292,136	297,347	915,753	880,304
Provisions for credit and other losses	25a	57,296	66,146	380,968	894,361
Total operating expenses		349,432	363,493	1,296,721	1,774,665
Operating income		375,487	375,853	859,212	329,974
Share in earnings of associates	9b	6,079	25,938	29,623	76,633
Income before provisions for Zakat and Income tax		381,566	401,791	888,835	406,607
Provisions for Zakat and Income tax	23c	80,193	89,858	174,484	97,966
Net income		301,373	311,933	714,351	308,641
Basic and diluted earnings per share (expressed in SAR per share)	19	0.42	0.44	0.94	0.34

The accompanying notes 1 to 27 form an integral part of these interim condensed consolidated financial statements.

THE SAUDI INVESTMENT BANK
(A Saudi joint stock company)

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)
Amounts in SAR'000

		Three month period ended		Nine month period ended	
	Notes	Sep. 30, 2020	Sep. 30, 2019	Sep. 30, 2020	Sep. 30, 2019
Net income		301,373	311,933	714,351	308,641
Other comprehensive income					
Items that cannot be reclassified to the interim consolidated statement of income in subsequent periods:					
Net change in fair value of equity investments held at fair value through other comprehensive income		99,864	5,344	184,087	(15,547)
Net change in present value of defined benefit obligations due to change in actuarial assumptions		-	-	341	2,584
Items that can be reclassified to the interim consolidated statement of income in subsequent periods:					
Net change in fair value of debt securities held at fair value through other comprehensive income		180,899	201,223	10,877	413,724
Fair value gains transferred to interim consolidated statement of income on disposal of debt securities		(374)	(43,525)	(31,713)	(43,720)
Share in other comprehensive loss of associates transferred to interim consolidated statement of income on the disposal of an associate	9bi	1,036	-	1,036	-
Share in other comprehensive loss of associates	9b	-	(856)	(3,193)	(1,139)
Total other comprehensive income		281,425	162,186	161,435	355,902
Total comprehensive income		582,798	474,119	875,786	664,543

The accompanying notes 1 to 27 form an integral part of these interim condensed consolidated financial statements.

THE SAUDI INVESTMENT BANK
(A Saudi joint stock company)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)

	Nine month period ended September 30, 2020 (SAR'000)							
	Share capital	Statutory reserve	Treasury shares	Other reserves	Retained earnings	Shareholders' equity	Tier I Sukuk	Total equity
Balances at the beginning of the period (Audited)	7,500,000	4,988,000	(1,041,067)	329,977	230,097	12,007,007	2,000,000	14,007,007
Net income	-	-	-	-	714,351	714,351	-	714,351
Total other comprehensive income	-	-	-	161,435	-	161,435	-	161,435
Total comprehensive income	-	-	-	161,435	714,351	875,786	-	875,786
Tier I Sukuk costs	-	-	-	-	(76,254)	(76,254)	-	(76,254)
Balances at the end of the period	7,500,000	4,988,000	(1,041,067)	491,412	868,194	12,806,539	2,000,000	14,806,539

The accompanying notes 1 to 27 form an integral part of these interim condensed consolidated financial statements.

THE SAUDI INVESTMENT BANK
(A Saudi joint stock company)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY - Continued (Unaudited)

	Notes	Share capital	Statutory reserve	Treasury shares	Other reserves	Retained earnings	Shareholders' equity	Tier I Sukuk	Total equity
		Nine month period ended September 30, 2019 (SAR'000)							
Balances at the beginning of the period as previously reported (Audited)		7,500,000	4,928,000	(787,536)	(192,056)	205,268	11,653,676	1,785,000	13,438,676
Retroactive effect of other adjustments		-	-	-	-	(32,608)	(32,608)	-	(32,608)
Balances at the beginning of the period as restated		7,500,000	4,928,000	(787,536)	(192,056)	172,660	11,621,068	1,785,000	13,406,068
Net income		-	-	-	-	308,641	308,641	-	308,641
Total other comprehensive income		-	-	-	355,902	-	355,902	-	355,902
Total comprehensive income		-	-	-	355,902	308,641	664,543	-	664,543
Treasury shares purchased	24	-	-	(253,531)	-	-	(253,531)	-	(253,531)
Tier I Sukuk proceeds	22	-	-	-	-	-	-	215,000	215,000
Tier I Sukuk Costs		-	-	-	-	(73,056)	(73,056)	-	(73,056)
Balances at the end of the period		7,500,000	4,928,000	(1,041,067)	163,846	408,245	11,959,024	2,000,000	13,959,024

The accompanying notes 1 to 27 form an integral part of these interim condensed consolidated financial statements.

THE SAUDI INVESTMENT BANK
(A Saudi joint stock company)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)
Amounts in SAR'000

	Notes	Nine month period ended Sep. 30, 2020	Nine month period ended Sep. 30, 2019
OPERATING ACTIVITIES			
Net income		714,351	308,641
Adjustments to reconcile net income to net cash provided from operating activities			
Net accretion of discounts and net amortization of premiums on investments, net		22,133	28,903
Net change in accrued special commission income		134,463	99,388
Net change in accrued special commission expense		(151,107)	30,343
Net change in deferred loan fees		(31,994)	19,848
Gains on FVOCI debt securities, net		(31,713)	(43,720)
Unrealized fair value through profit and loss		20,107	10,681
Realized fair value through profit and loss		(3,542)	(2,261)
Depreciation and amortization		110,159	106,869
Gains on sales of property, equipment, and intangibles		-	(90)
Gain on sale of other real estate		(7)	(9,710)
Gain on sale of an associate	9bi	(19,460)	-
Provisions for credit and other losses	25a	380,968	894,361
Share in earnings of associates	9b	(29,623)	(76,633)
		1,114,735	1,366,620
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		207,868	(230,270)
Due from banks and other financial institutions maturing after three months from acquisition date		185,989	61,791
Loans and advances		(1,137,240)	702,190
Positive fair values of derivatives		244,566	87,890
Other real estate		11,008	274,804
Other assets		(16,703)	(281,405)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		5,711,234	764,539
Customers' deposits		(9,086,062)	1,232,676
Negative fair values of derivatives		(30,298)	(235,155)
Other liabilities		394,172	178,583
		(2,400,731)	3,922,263
Zakat and Income Tax payments		(107,596)	(351,984)
Net cash (used in) provided from operating activities		(2,508,327)	3,570,279
INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments		3,448,522	1,757,995
Purchases of investments		(6,320,795)	(2,824,145)
Dividends received from associates	9b	62,796	105,709
Proceeds from sale of associate	9bi	133,129	
Acquisitions of property, equipment, and intangibles		(84,081)	(91,067)
Proceeds from sales of property, equipment, and intangibles		-	350
Net cash used in investing activities		(2,760,429)	(1,051,158)

The accompanying notes 1 to 27 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS - Continued (Unaudited)
Amounts in SAR'000

	Notes	Nine month period ended Sep. 30, 2020	Sep. 30, 2019
FINANCING ACTIVITIES			
Treasury shares purchased	24	-	(253,531)
Proceeds from Tier I Sukuk	22	-	215,000
Redemption of Subordinated debt		-	(2,000,000)
Tier I Sukuk costs		(76,254)	(73,056)
Net cash used in financing activities		(76,254)	(2,111,587)
Net (decrease) increase in cash and cash equivalents		(5,345,010)	407,534
Cash and cash equivalents			
Cash and cash equivalents at the beginning of the period		9,613,154	4,503,172
Net (decrease) increase in cash and cash equivalents		(5,345,010)	407,534
Cash and cash equivalents at the end of the period	5b	4,268,144	4,910,706
Supplemental special commission information			
Special commission received		2,693,403	3,049,761
Special commission paid		943,999	1,215,383
Supplemental non-cash information			
Total other comprehensive income		161,435	355,902

The accompanying notes 1 to 27 form an integral part of these interim condensed consolidated financial statements.

1. General

The Saudi Investment Bank (the "Bank"), a Saudi joint stock company, was formed pursuant to Royal Decree No. M/31 dated 25 Jumada II 1396H, corresponding to June 23, 1976 in the Kingdom of Saudi Arabia ("KSA"). The Bank operates under Commercial Registration No. 1010011570 dated 25 Rabie Awwal 1397H, corresponding to March 16, 1977 through its 52 branches (December 31, 2019: 52 branches; and September 30, 2019: 52 branches) in KSA. The address of the Bank's Head Office is as follows:

The Saudi Investment Bank
Head Office
P.O. Box 3533
Riyadh 11481, KSA

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

2. Basis of preparation

These interim condensed consolidated financial statements as of and for the nine month period ended September 30, 2020 have been prepared in accordance with International Accounting Standard 34 - *Interim Financial Reporting* ("IAS 34") as endorsed in KSA and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA"). These interim condensed consolidated financial statements do not include all information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the annual consolidated financial statements as of and for the year ended December 31, 2019.

These interim condensed consolidated financial statements are expressed in Saudi Arabian Riyals (SAR) and are rounded off to the nearest thousand, except where indicated herein.

The preparation of these interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities and income and expense. Actual results may differ from these estimates. In preparing these interim condensed consolidated financial statements, the significant judgments made by management in applying the accounting policies and the key sources of estimation of uncertainty were the same as those that applied to the annual consolidated financial statements as of and for the year ended December 31, 2019.

These interim condensed consolidated financial statements were approved by the Bank's Board of Directors on November 2, 2020.

3. Basis of consolidation

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

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

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

3. Basis of consolidation – continued

c) "Saudi Investment First Company", a limited liability company, which is registered in KSA under commercial registration No. 1010427836 issued on 16 Muharram 1436H (corresponding to November 9, 2014), and is owned 100% by the Bank. During 2020, the Company completed the formalities for deregistration with regulatory authorities and has been liquidated; and

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

References to the Bank hereafter in these interim condensed consolidated financial statements refer to disclosures that are relevant only to the Bank and not collectively to the Group.

The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies. Changes are made to the accounting policies of the subsidiaries when necessary to align with the accounting policies of the Group.

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

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

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

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

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

The Group 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. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control over the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the period are included in the interim condensed consolidated financial statements from the date the Group obtains control until the date the Group ceases to control the subsidiary.

3. Basis of consolidation – continued

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

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

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

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

4. Summary of significant accounting policies

The accounting policies, estimates and assumptions used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2019 except for the addition explained below:

Government grants

Grants from the government are recognized at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with the conditions associated with the grant. The benefit of a government deposit at a below-market commission rate is treated as a government grant related to income. Below-market rate deposits are recognized and measured in accordance with IFRS 9 – Financial Instruments.

The benefit of the below-market rate of commission is measured as the difference between the initial fair value of the deposit determined in accordance with IFRS 9 and the proceeds received and is presented as a discount to due to banks and other financial institutions. The benefit is accounted for in accordance with IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance. Government grant income is recognized in special commission income on a systematic basis to the extent of related costs for which the grant is intended to compensate, with the remaining amount deferred and included in other liabilities. The grant income is only recognized when the ultimate beneficiary is the Group. Where the customer is the ultimate beneficiary, the Group only records the respective receivable and payable amounts.

Other Standards, amendments or interpretations

Other Standards, amendments or interpretations effective for annual periods beginning on or after January 1, 2020, did not have a significant impact on the Group's interim condensed consolidated financial statements.

Amounts in SAR'000

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

a) Cash and balances with SAMA as of September 30, 2020 and 2019 and as of December 31, 2019 are summarized as follows:

	Sep. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Sep. 30, 2019 (Unaudited
Cash on hand	948,527	892,087	934,904
Reverse repurchase agreements	1,590,000	6,025,000	2,922,000
Other balances, net	66,092	(137,497)	(88,041)
Cash and balances before statutory deposit (note 5b)	2,604,619	6,779,590	3,768,863
Statutory deposit	3,231,358	3,439,226	3,447,500
Cash and balances with SAMA	5,835,977	10,218,816	7,216,363

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

b) Cash and cash equivalents included in the interim consolidated statement of cash flows as of September 30, 2020 and 2019 and as of December 31, 2019 are comprised of the following:

	Sep. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Sep. 30, 2019 (Unaudited)
Cash and balances with SAMA excluding statutory deposit (note 5a)	2,604,619	6,779,590	3,768,863
Due from banks and other financial institutions maturing within three months from the date of acquisition	1,663,525	2,833,564	1,141,843
Cash and cash equivalents	4,268,144	9,613,154	4,910,706

6. Due from banks and other financial institutions, net

a) Due from banks and other financial institutions, net as of September 30, 2020 and 2019 and as of December 31, 2019 are summarized as follows:

	Sep. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Sep. 30, 2019 (Unaudited)
Current accounts	1,611,383	373,345	346,800
Money market placements	60,946	2,657,258	800,334
Total due from banks and other financial institutions	1,672,329	3,030,603	1,147,134
Allowance for credit losses	(2,586)	(2,088)	(1,861)
Due from banks and other financial institutions, net	1,669,743	3,028,515	1,145,273

Amounts in SAR'000

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

b) The credit quality of due from banks and other financial institutions as of September 30, 2020 and 2019 and as of December 31, 2019 is summarized as follows:

	Sep. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Sep. 30, 2019 (Unaudited)
Investment grade	1,671,626	3,027,595	1,146,044
Non-investment grade	703	3,008	1,090
Total due from banks and other financial institutions	1,672,329	3,030,603	1,147,134

c) The movement of the allowance for credit losses for the nine month periods ended September 30, 2020 and 2019 and the year ended December 31, 2019 is summarized as follows:

	Sep. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Sep. 30, 2019 (Unaudited)
Balances at the beginning of the year / period	2,088	2,703	2,703
Provision for credit losses	498	(615)	(842)
Balances at the end of the year / period	2,586	2,088	1,861

d) A reconciliation from the opening to the closing balances of the allowance for credit losses for the nine month periods ended September 30, 2020 and 2019 is summarized as follows:

	Sep. 30, 2020 (Unaudited)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the period	1,730	358	-	2,088
Changes in exposures, re-measurement, and transfers	772	(274)	-	498
Balances at the end of the period	2,502	84	-	2,586

	Sep. 30, 2019 (Unaudited)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the period	2,336	367	-	2,703
Changes in exposures, re-measurement, and transfers	(605)	(237)	-	(842)
Balances at the end of the period	1,731	130	-	1,861

Amounts in SAR'000

7. Investments

a) Investments as of September 30, 2020 and 2019 and as of December 31, 2019 are summarized as follows:

	Sep. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Sep. 30, 2019 (Unaudited)
Fixed rate debt securities	26,261,878	22,445,349	22,369,311
Floating rate debt securities	2,369,851	3,302,072	3,338,011
Total debt securities	28,631,729	25,747,421	25,707,322
Equities	444,193	262,799	245,834
Mutual funds	128,806	126,224	126,445
Other securities	36,095	39,036	39,694
Investments	29,240,823	26,175,480	26,119,295

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

The Group's investments in equities include SAR 8.6 million as of September 30, 2020 (December 31, 2019: SAR 8.6 million, and September 30, 2019: SAR 8.6 million) which the Bank acquired in prior years in connection with the settlement of certain loans and advances.

The Group also holds strategic investments in equities totaling SAR 435.5 million as of September 30, 2020 (December 31, 2019: SAR 247.5 million, and September 30, 2019: SAR 237.2 million) including the Mediterranean and Gulf Cooperative Insurance and Reinsurance Company, SIMAH (the Saudi Credit Bureau), and the Saudi Company for Registration of Finance Lease Contracts.

As of September 30, 2020, investments include SAR 12.0 billion (December 31, 2019: SAR 10.8 billion, and September 30, 2019: SAR 10.7 billion) which have been pledged under repurchase agreements with other financial institutions.

b) The credit quality of debt securities at FVOCI as of September 30, 2020 and 2019 and as of December 31, 2019 is summarized as follows:

	Sep. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Sep. 30, 2019 (Unaudited)
Grades 1-6 and unrated	28,631,729	25,747,421	25,702,580
Grades 7-9	-	-	4,742
Total debt securities	28,631,729	25,747,421	25,707,322

c) The movement of the allowance for credit losses included in other reserves for the nine month periods ended September 30, 2020 and 2019 and for the year ended December 31, 2019 is summarized as follows:

	Sep. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Sep. 30, 2019 (Unaudited)
Balances at the beginning of the year / period	29,659	75,480	75,480
Provision for credit losses	3,742	(45,821)	(37,261)
Balances at the end of the year / period	33,401	29,659	38,219

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7. Investments – continued

d) A reconciliation from the opening to the closing balances of the allowance for credit losses for the nine month periods ended September 30, 2020 and 2019 is summarized as follows:

	Sep. 30, 2020 (Unaudited)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the period	29,659	-	-	29,659
Changes in exposures, re-measurement, and transfers	3,742	-	-	3,742
Balances at the end of the period	33,401	-	-	33,401

	Sep. 30, 2019 (Unaudited)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the period	71,794	3,686	-	75,480
Changes in exposures, re-measurement, and transfers	(38,317)	1,056	-	(37,261)
Balances at the end of the period	33,477	4,742	-	38,219

e) Other reserves classified in shareholders' equity as of September 30, 2020 and 2019 and as of December 31, 2019 are comprised of the following:

	Sep. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Sep. 30, 2019 (Unaudited)
Unrealized gains on revaluation of debt securities at FVOCI before allowance for credit losses	334,345	358,923	173,674
Allowance for credit losses on debt securities at FVOCI (note 7c)	33,401	29,659	38,219
Unrealized gains on revaluation of debt securities at FVOCI after allowance for credit losses	367,746	388,582	211,893
Unrealized gains (losses) on revaluation of equities held at FVOCI	146,431	(37,656)	(49,747)
Actuarial (losses) gains on defined benefit plans	(20,348)	(20,689)	2,584
Share of other comprehensive loss of associates	(2,417)	(260)	(884)
Other reserves	491,412	329,977	163,846

Amounts in SAR'000

8. Loans and advances, net

a) Loans and advances, net held at amortized cost as of September 30, 2020 and 2019 and as of December 31, 2019 and are summarized as follows:

	Sep. 30, 2020 (Unaudited)			
	Commercial and other	Overdrafts	Consumer	Total
Stage 1	38,403,712	2,265,215	11,710,021	52,378,948
Stage 2	3,857,006	541,888	150,920	4,549,814
Stage 3	255,481	995,932	2,785	1,254,198
Total performing loans and advances	42,516,199	3,803,035	11,863,726	58,182,960
Non performing loans and advances	326,197	1,719,068	194,630	2,239,895
Total loans and advances	42,842,396	5,522,103	12,058,356	60,422,855
Allowance for credit losses	(987,257)	(1,396,681)	(316,183)	(2,700,121)
Loans and advances, net	41,855,139	4,125,422	11,742,173	57,722,734

	Dec. 31, 2019 (Audited)			
	Commercial and other	Overdrafts	Consumer	Total
Stage 1	35,908,695	2,002,370	13,248,652	51,159,717
Stage 2	4,165,102	628,792	204,961	4,998,855
Stage 3	553,103	430,102	2,464	985,669
Total performing loans and advances	40,626,900	3,061,264	13,456,077	57,144,241
Non performing loans and advances	947,868	1,164,385	261,998	2,374,251
Total loans and advances	41,574,768	4,225,649	13,718,075	59,518,492
Allowance for credit losses	(982,836)	(1,030,656)	(392,093)	(2,405,585)
Loans and advances, net	40,591,932	3,194,993	13,325,982	57,112,907

	Sep. 30, 2019 (Unaudited)			
	Commercial and other	Overdrafts	Consumer	Total
Stage 1	36,051,841	1,744,625	13,352,592	51,149,058
Stage 2	4,158,002	713,962	272,436	5,144,400
Stage 3	1,044,955	825,362	2,163	1,872,480
Total performing loans and advances	41,254,798	3,283,949	13,627,191	58,165,938
Non performing loans and advances	659,588	485,485	313,352	1,458,425
Total loans and advances	41,914,386	3,769,434	13,940,543	59,624,363
Allowance for credit losses	(842,817)	(688,485)	(466,751)	(1,998,053)
Loans and advances, net	41,071,569	3,080,949	13,473,792	57,626,310

b) The movement of the allowance for credit losses for the nine month periods ended September 30, 2020 and 2019 and for the year ended December 31, 2019 is summarized as follows:

	Sep. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Sep. 30, 2019 (Unaudited)
Balances at the beginning of the year / period	2,405,585	1,795,576	1,795,576
Provision for credit losses	381,940	1,270,770	840,964
Write-offs, net	(87,404)	(660,761)	(638,487)
Balances at the end of the year / period	2,700,121	2,405,585	1,998,053

Amounts in SAR'000

8. Loans and advances, net – continued

c) A reconciliation from the opening to the closing balance of the allowance for credit losses for the nine month periods ended September 30, 2020 and 2019 is summarized as follows:

	Sep. 30, 2020 (Unaudited)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the period	379,511	184,512	1,841,562	2,405,585
Changes in exposures, re-measurement, and transfers (i)	78,073	62,999	240,868	381,940
Write-offs, net	-	-	(87,404)	(87,404)
Balances at the end of the period	457,584	247,511	1,995,026	2,700,121

	Sep. 30, 2019 (Unaudited)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the period	339,621	135,456	1,320,499	1,795,576
Changes in exposures, re-measurement, and transfers	(9,591)	17,255	833,300	840,964
Write-offs, net	-	-	(638,487)	(638,487)
Balances at the end of the period	330,030	152,711	1,515,312	1,998,053

i. Owing to the prevailing economic conditions, the Group has recognized an additional ECL provision of SAR 215.8 million during the nine month period ended September 30, 2020 for its loans and advances portfolio as a result of adjustments to macroeconomic factors, scenario weightages, and post-model overlays. Refer to note 26 for details.

9. Investments in associates

a) Investments in associates as of September 30, 2020 and 2019 and as of December 31, 2019 include the Bank's ownership interest in associated companies in KSA, as follows:

	Sep. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Sep. 30, 2019 (Unaudited)
American Express (Saudi Arabia) ("AMEX")	50%	50%	50%
Saudi ORIX Leasing Company ("ORIX")	38%	38%	38%
Amlak International for Real Estate Finance Company ("AMLAK")	22.4%	32%	32%

b) The movement of investments in associates for the nine month periods ended September 30, 2020 and 2019, and for the year ended December 31, 2019, is summarized as follows:

	Sep. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Sep. 30, 2019 (Unaudited)
Balance at the beginning of the year / period	994,298	1,012,366	1,012,366
Share in earnings	29,623	88,156	76,633
Dividends	(62,796)	(105,709)	(105,709)
Share of other comprehensive loss	(3,193)	(515)	(1,139)
Disposals (i)	(112,633)	-	-
Balance at the end of the year / period	845,299	994,298	982,151

Amounts in SAR'000

9. Investments in associates – continued

i. During the nine month period ended September 30, 2020, the Group sold 30% of its shares in AMLAK as part of AMLAK's Initial Public Offering ("IPO"). The carrying value of the investment sold amounted to SAR 112.6 million. Consideration received was SAR 133.1 million. The gain from the sale amounted to SAR 19.4 million, net of other comprehensive loss transferred to the interim consolidated statement of income on disposal of SAR 1.03 million, which is included in other income.

   The retained interest in AMLAK continues to be classified as an associate as the Group continues to retain significant influence over financial and operating matters of the associated company. The fair value of the investment in AMLAK as of September 30, 2020 amounts to SAR 482.7 million.

c) The following table summarizes the associates' assets, liabilities, and equity as of September 30, 2020 and 2019, and income and expense for the nine month periods then ended:

	Sep. 30, 2020 (Unaudited)			Sep. 30, 2019 (Unaudited)		
	AMEX	ORIX	AMLAK	AMEX	ORIX	AMLAK
Total assets	545,730	1,288,438	3,750,452	949,240	1,135,924	3,186,831
Total liabilities	223,991	436,360	2,582,539	553,758	273,966	2,093,658
Equity	321,739	852,078	1,167,913	395,482	861,958	1,093,173
Total income	198,870	74,463	148,416	306,642	84,774	139,946
Total expenses	187,342	59,999	95,126	213,862	52,918	95,747

The head office of each associate company is located in Riyadh in KSA, with all operations conducted entirely in KSA.

10. Property and equipment, net and Information Technology intangible assets, net

a) Property and equipment, net as of September 30, 2020 and 2019 and as of December 31, 2019 is summarized as follows:

	Sep. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Sep. 30, 2019 (Unaudited)
Land and buildings	1,087,721	1,080,445	1,072,952
Leasehold improvements	183,968	177,916	172,950
Furniture, equipment and vehicles	409,541	404,412	497,586
Right of Use leased assets	326,924	306,889	303,678
Total cost	2,008,154	1,969,662	2,047,166
Less accumulated depreciation	(917,179)	(838,974)	(902,671)
	1,090,975	1,130,688	1,144,495
Projects pending completion	-	3,807	4,022
Property and equipment, net	1,090,975	1,134,495	1,148,517

b) Information Technology intangible assets, net as of September 30, 2020 and 2019 and as of December 31, 2019 is summarized as follows:

	Sep. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Sep. 30, 2019 (Unaudited)
Software	446,947	404,825	381,082
Less accumulated amortization	(219,188)	(187,234)	(177,472)
	227,759	217,591	203,610
Projects pending completion	44,019	36,745	46,675
Information Technology intangible assets, net	271,778	254,336	250,285

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11. Other assets, net and other liabilities

a) Other assets, net as of September 30, 2020 and 2019 and as of December 31, 2019 are summarized as follows:

	Sep. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Sep. 30, 2019 (Unaudited)
Customer and other receivables	56,670	31,736	31,299
Prepaid expenses	61,865	50,932	49,879
Others	31,548	50,712	39,233
Total other assets	150,083	133,380	120,411
Less allowance for credit losses	(797)	(386)	(423)
Other assets, net	149,286	132,994	119,988

b) The movement of the allowance for credit losses for the nine month periods ended September 30, 2020 and 2019 and for the year ended December 31, 2019 is summarized as follows:

	Sep. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Sep. 30, 2019 (Unaudited)
Balances at the beginning of the year / period	386	566	566
Provision for credit losses	411	(180)	(143)
Balances at the end of the year / period	797	386	423

c) Other liabilities as of September 30, 2020 and 2019 and as of December 31, 2019 are summarized as follows:

	Sep. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Sep. 30, 2019 (Unaudited)
Zakat settlement liability, net	466,482	453,801	572,584
Lease liabilities	260,937	253,715	255,701
Allowance for credit losses for financial guarantee contracts (note 16c)	211,774	217,397	222,057
Employee end of service benefits	189,612	174,512	150,878
Accrued expenses and other provisions	148,700	98,477	88,964
Accrued Zakat and Income tax	155,374	88,486	96,441
Allowance for legal proceedings	49,011	73,528	75,229
Accrued salaries and employee related benefits	128,828	93,311	61,120
Customer related liabilities	59,491	80,632	78,576
Deferred fee and government grant income	161,441	12,095	13,637
Others	83,161	88,245	84,552
Total	1,914,811	1,634,199	1,699,739

12. Due to banks and other financial institutions, net

a) Due to banks and other financial institutions, net as of September 30, 2020 and 2019 and as of December 31, 2019 are summarized as follows:

	Sep. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Sep. 30, 2019 (Unaudited)
Current accounts	8,067	8,918	9,426
Repurchase agreements	10,948,248	10,323,011	10,152,254
Money market deposits	2,584,335	3,456,262	3,224,363
Commission free deposits from SAMA, net (note 12b)	5,890,034	-	-
Total	19,430,684	13,788,191	13,386,043

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12. Due to banks and other financial institutions, net - continued

b) The commission free deposits from SAMA, net are comprised of the following:

Maturity date	Sep. 30, 2020 (Unaudited)
June 6, 2021	2,322,722
March 29, 2023	1,050,000
May 11, 2023	25,000
May 21, 2023	1,161,000
July 16, 2023	1,624,069
Undiscounted commission free deposits from SAMA	6,182,791
Less: Unamortized discount	(292,757)
Commission free deposits from SAMA, net	5,890,034

13. Customers' deposits

Customers' deposits as of September 30, 2020 and 2019 and as of December 31, 2019 are summarized as follows:

	Sep. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Sep. 30, 2019 (Unaudited)
Time deposits	27,662,698	39,969,344	35,421,168
Savings deposits	1,598,732	1,698,795	639,629
Total special commission bearing deposits	29,261,430	41,668,139	36,060,797
Demand deposits	29,181,542	25,865,987	27,661,108
Other deposits	1,397,997	1,523,928	1,241,632
Customers' deposits	59,840,969	69,058,054	64,963,537

14. Term loans

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

The term loans bear commission at market based variable rates. The Bank has an option to effect early repayment of the term loans subject to the terms and conditions of the related facility agreements. The facility agreements above include covenants which require maintenance of certain financial ratios and other requirements, with which the Bank is in compliance. The Bank also has not had any defaults of principal or commission on the term loans.

Amounts in SAR'000

15. Derivatives

a) The table below sets out the positive and negative fair values of derivative financial instruments together with their notional amounts as of September 30, 2020 and 2019 and as of December 31, 2019. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the end of the period / year, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are not indicative of market risk nor of the Group's exposure to credit risk, which is generally limited to the net positive fair value of the derivatives.

	Sep. 30, 2020 (Unaudited)			Dec. 31, 2019 (Audited)			Sep. 30, 2019 (Unaudited)		
	Fair value		Notional amount	Fair value		Notional amount	Fair value		Notional amount
	Positive	Negative		Positive	Negative		Positive	Negative	
Held for trading:									
Forward foreign exchange contracts	18,753	16,752	3,769,726	4,193	2,684	2,368,748	1,901	2,113	2,680,953
Foreign exchange options	-	-	-	267	267	750,320	605	605	1,500,680
Commission rate swaps	156,899	156,396	7,563,501	124,364	123,861	7,260,075	122,679	121,358	6,728,946
Commission rate options	280,530	280,522	9,065,020	278,528	278,521	9,080,979	287,560	287,552	9,096,699
Held as fair value hedges:									
Commission rate swaps	-	1,452,334	12,721,280	-	591,114	12,835,216	-	759,803	12,835,558
Associated company put option (note 15c)	398,743	-	-	421,243	-	-	402,991	-	-
Subtotal	854,925	1,906,004	33,119,527	828,595	996,447	32,295,338	815,736	1,171,431	32,842,836
CSA / EMIR cash margins	210,289	(1,577,986)	-	476,481	(680,928)	-	334,676	(893,971)	-
Total	1,065,214	328,018	33,119,527	1,305,076	315,519	32,295,338	1,150,412	277,460	32,842,836

b) The Bank, as part of its derivative management activities, has entered into a master agreement in accordance with the International Swaps and Derivatives Association (ISDA) directives. Under this agreement, the terms and conditions for derivative products purchased or sold by the Bank are unified. As part of the master agreement, a credit support annex (CSA) has also been signed. The CSA allows the Bank to receive improved pricing by way of exchange of mark to market amounts in cash as collateral whether in favor of the Bank or the counterparty.

For commission rate swaps entered into with European counterparties, the Bank and the European counterparty both comply with the European Market Infrastructure Regulation (EMIR). EMIR is a body of European legislation for the central clearing and regulation of Over the Counter (OTC) derivatives. The regulation includes requirements for reporting of derivatives contracts and implementation of risk management standards, and establishes common rules for central counterparties and trade repositories. Accordingly, all such standardized OTC derivatives contracts are traded on exchanges and cleared through a Central Counter Party (CCP) through netting arrangements and exchanges of cash to reduce counter party credit and liquidity risk.

As of September 30, 2020, the CSA and EMIR net cash collateral amounts held by counterparties in favor of the Bank totaled SAR 1,788 million (December 31, 2019: SAR 1,157 million, and September 30, 2019: SAR 1,228 million). The EMIR net cash margins include initial margin payments made to counterparties.

The positive and negative fair values of derivatives including CSA and EMIR cash margins have been netted / offset when there is a legally enforceable right to set off the recognized amounts and when the Group intends to settle on a net basis, or to realize the assets and settle the liability simultaneously.

c) The Bank has a put option arising from an existing master agreement entered into by the Bank relating to an associated company, the estimated value of which is included in note 15a. The terms of the agreement give the Bank a put option and give the counter party a call option that is exercisable for the remaining term of the agreement. The Bank has valued only the put option, as the call option is deemed to be out of the money. The put option, once exercised, grants the Bank the right to receive a payment in exchange for its shares one year after the exercise, based on pre-determined formulas included in the agreement.

Amounts in SAR'000

16. Commitments, contingencies, and financial guarantee contracts

a) The Group's credit-related commitments and contingencies as of September 30, 2020 and 2019 and as of December 31, 2019 are summarized as follows:

	Sep. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Sep. 30, 2019 (Unaudited)
Letters of credit	2,480,538	2,668,759	2,461,271
Letters of guarantee	8,771,711	8,916,676	8,890,778
Acceptances	777,447	831,725	657,371
Total financial guarantee contracts	12,029,696	12,417,160	12,009,420
Irrevocable commitments to extend credit	415,450	693,076	668,402
Credit-related commitments and contingencies	12,445,146	13,110,236	12,677,822

b) The credit quality of financial guarantee contracts as of September 30, 2020 and 2019 and as of December 31, 2019 are summarized as follows:

	Sep. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Sep. 30, 2019 (Unaudited)
Stage 1	11,075,021	11,366,900	10,974,848
Stage 2	551,326	664,557	588,663
Stage 3	403,349	385,703	445,909
Total	12,029,696	12,417,160	12,009,420

c) The movement of the allowance for credit losses for financial guarantee contracts for the nine month periods ended September 30, 2020 and 2019 and for the year ended December 31, 2019 is summarized as follows:

	Sep. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Sep. 30, 2019 (Unaudited)
Balances at the beginning of the year / period	217,397	165,320	165,320
Provision for credit losses	(5,623)	52,077	56,737
Balances at the end of the year / period	211,774	217,397	222,057

d) A reconciliation from the opening to the closing balance of the allowance for credit losses for financial guarantee contracts for the nine month periods ended September 30, 2020 and 2019 is summarized as follows:

	Sep. 30, 2020 (Unaudited)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the period	109,335	26,675	81,387	217,397
Changes in exposures, re-measurement, and transfers	(6,851)	(7,442)	8,670	(5,623)
Balances at the end of the period	102,484	19,233	90,057	211,774

	Sep. 30, 2019 (Unaudited)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the period	104,039	31,138	30,143	165,320
Changes in exposures, re-measurement, and transfers	(5,803)	(9,825)	72,365	56,737
Balances at the end of the period	98,236	21,313	102,508	222,057

16. Commitments, contingencies, and financial guarantee contracts - continued

e) The Group is subject to legal proceedings in the ordinary course of business. No provision has been made in cases where professional legal advice indicates that it is not probable that any significant loss will arise. However, provisions are made for legal cases where management foresees the probability of an adverse outcome based on professional advice.

17. Operating segments

a) Operating segments are identified based on internal reports about components of the Group that are regularly reviewed by the Bank's Board of Directors in its function as the Chief Operating Decision Maker to allocate resources to the segments and to assess their performance. Performance is measured based on segment profit, as management believes that this indicator is the most relevant in evaluating the results of certain segments relative to other entities that operate within these sectors.

Transactions between the operating segments are on normal commercial terms and conditions as approved by management. The revenue from external parties reported to the Board is measured in a manner consistent with that in the interim consolidated statement of income. Segment assets and liabilities are comprised of operating assets and liabilities. The Group's primary business is conducted in KSA.

There has been no change to the measurement basis for the segment profit or loss. The Group's reportable segments are as follows:

Retail banking. Loans, deposits, and other credit products for individuals and small to medium-sized businesses.

Corporate banking. Loans, deposits and other credit products for corporate and institutional customers.

Treasury and Investments. Money market, investments and treasury services, and investments in associates and related activities.

Asset management and brokerage. Dealing, managing, advising and custody of securities services.

Other. Support functions, special credit, and other management and control units.

Commission is charged to operating segments based on Funds Transfer Price (FTP) rates. The net FTP contribution included in the segment information below includes the segmental net special commission income after FTP asset charges and liability credits (FTP net transfers). All other segment income is from external customers.

Amounts in SAR'000

17. Operating segments – continued

b) The segment information provided to the Bank's Board of Directors for the reportable segments for the Group's total assets and liabilities as of September 30, 2020 and 2019, and its total operating income, expenses, and Income before provisions for Zakat and Income tax for the nine month periods then ended, are as follows:

	Sep. 30, 2020 (Unaudited)					
	Retail Banking	Corporate Banking	Treasury and Investments	Asset Management and Brokerage	Other	Total
Total assets	19,786,514	37,749,926	37,762,942	489,335	2,549,790	98,338,507
Total liabilities	21,750,611	7,329,185	53,592,077	63,573	796,522	83,531,968
Net special commission income (expense)	691,626	1,167,290	(8,014)	18,450	(101,971)	1,767,381
FTP net transfers	(28,203)	(444,360)	482,037	-	(9,474)	-
Net FTP contribution	663,423	722,930	474,023	18,450	(111,445)	1,767,381
Fee income (expense) from banking services, net	17,570	106,129	34,505	89,385	(27,893)	219,696
Other operating income (loss)	58,893	35,618	190,399	949	(117,003)	168,856
Total operating income (loss)	739,886	864,677	698,927	108,784	(256,341)	2,155,933
Direct operating expenses	203,163	48,149	31,373	61,098	-	343,783
Indirect operating expenses	245,946	114,394	211,630	-	-	571,970
Provisions for credit and other losses	38,095	338,222	4,240	411	-	380,968
Total operating expenses	487,204	500,765	247,243	61,509	-	1,296,721
Operating income (loss)	252,682	363,912	451,684	47,275	(256,341)	859,212
Share in earnings of associates	-	-	29,623	-	-	29,623
Income (loss) before provisions for Zakat and Income tax	252,682	363,912	481,307	47,275	(256,341)	888,835

	Sep. 30, 2019 (Unaudited)					
	Retail Banking	Corporate Banking	Treasury and Investments	Asset Management and Brokerage	Other	Total
Total assets	20,953,305	36,858,293	35,712,744	401,680	2,372,581	96,298,603
Total liabilities	19,846,636	6,038,041	55,683,901	15,244	755,757	82,339,579
Net special commission income (expense)	563,270	1,390,556	(251,850)	16,480	(11,254)	1,707,202
FTP net transfers	(77,456)	(521,457)	604,768	-	(5,855)	-
Net FTP contribution	485,814	869,099	352,918	16,480	(17,109)	1,707,202
Fee income (expense) from banking services, net	38,875	95,989	65,543	58,736	(24,375)	234,768
Other operating income (loss)	62,983	36,661	164,440	2,956	(104,371)	162,669
Total operating income (loss)	587,672	1,001,749	582,901	78,172	(145,855)	2,104,639
Direct operating expenses	216,927	48,645	27,172	50,803	26,313	369,860
Indirect operating expenses	219,492	102,089	188,863	-	-	510,444
Provisions for credit and other losses	382,544	515,912	(38,894)	(107)	34,906	894,361
Total operating expenses	818,963	666,646	177,141	50,696	61,219	1,774,665
Operating income (loss)	(231,291)	335,103	405,760	27,476	(207,074)	329,974
Share in earnings of associates	-	-	76,633	-	-	76,633
Income (loss) before provisions for Zakat and Income tax	(231,291)	335,103	482,393	27,476	(207,074)	406,607

18. Fair values of financial instruments

a) The Group measures certain financial instruments, such as derivatives, at fair value at each interim consolidated statement of financial position 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 by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

Level 1. Quoted prices in active markets for the same or identical instrument that an entity can access at the measurement date (i.e., without modification or proxy);

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

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

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

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

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

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

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

Amounts in SAR'000

18. Fair values of financial instruments – continued

b) The following table summarizes the fair values of financial assets and financial liabilities by level of fair value hierarchy recorded at fair value as of September 30, 2020 and 2019 and as of December 31, 2019. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Sep. 30, 2020 (Unaudited)			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Derivative financial instruments at FVTPL	-	666,471	398,743	1,065,214
Investments at FVOCI	23,202,659	5,408,000	465,263	29,075,922
Investments at FVTPL	117,301	-	47,600	164,901
Total	23,319,960	6,074,471	911,606	30,306,037
Financial liabilities carried at fair value:				
Derivative financial instruments at FVTPL	-	328,018	-	328,018
Total	-	328,018	-	328,018

	Dec. 31, 2019 (Audited)			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Derivative financial instruments at FVTPL	-	883,833	421,243	1,305,076
Investments at FVOCI	18,296,609	7,246,430	467,181	26,010,220
investments at FVTPL	114,664	-	50,596	165,260
Total	18,411,273	8,130,263	939,020	27,480,556
Financial liabilities carried at fair value:				
Derivative financial instruments at FVTPL	-	315,519	-	315,519
Total	-	315,519	-	315,519

	Sep. 30, 2019 (Unaudited)			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Derivative financial instruments at FVTPL	-	747,421	402,991	1,150,412
Investments at FVOCI	18,284,110	7,195,074	473,972	25,953,156
Investments at FVTPL	126,445	-	39,694	166,139
Total	18,410,555	7,942,495	916,657	27,269,707
Financial liabilities carried at fair value:				
Derivative financial instruments at FVTPL	-	277,460	-	277,460
Total	-	277,460	-	277,460

The value obtained from any relevant valuation model may differ with a transaction price of a financial instrument. The difference between the transaction price and the model value is commonly referred to as 'day one profit and loss'. It is either amortized over the life of the transaction, deferred until the instrument's fair value, can be determined using market observable data, or realized through disposal. Subsequent changes in fair value are recognized immediately in the interim consolidated statement of comprehensive income without reversal of deferred day one profits and losses.

18. Fair values of financial instruments – continued

The total amount of the changes in fair value recognized in the September 30, 2020 interim consolidated statement of income, which was estimated using valuation models, is SAR 22.5 million loss (September 30, 2019: SAR 14.8 million loss).

Level 2 investments include debt securities which are comprised of Saudi corporate and bank securities, and Saudi Arabian Government securities. These securities are generally unquoted. In the absence of a quoted price in an active market, these securities are valued using observable inputs such as yield information for similar instruments or last executed transaction prices in securities of the same issuer or based on indicative market quotes. Adjustments are also considered as part of the valuations when necessary to account for the different features of the instruments including difference in tenors. Because the significant inputs for these investments are observable, the Bank categorizes these investments within Level 2.

Level 2 derivative financial instruments include various derivatives contracts including forward foreign exchange contracts, foreign exchange options, commission rate options, and commission rate swaps. These derivatives are valued using widely recognized valuation models. The most frequently applied valuation techniques include the use of forward pricing standard models using present value calculations and well-recognized Black - Scholes option pricing models. These models incorporate various market observable inputs including foreign exchange rates, forward rates, and yield curves, and are therefore included within Level 2.

Level 3 investments include Gulf Cooperation Council Government securities, and also investments in hedge funds, private equity funds, and certain unquoted strategic investments in equities. These securities are generally not quoted in an active market, and therefore are valued using indicative market quotes from an issuer / counter-party or valued at cost in the absence of any such alternative reliable indicative estimate.

Level 3 derivative financial instruments include the embedded derivative put option arising from an existing master agreement entered into by the Bank relating to its investment in an associated company (see note 15c). For purposes of determining the fair value of the put option, the Bank uses a well-recognized and frequently used Binomial Option Pricing Model. This model requires certain inputs which are not observable in the current market place. Certain inputs are specifically stated within the master agreement with the associated company. Other inputs are based on the historical results of the associated company. These other inputs may require management's judgement including estimations about the future results of the associated company, the detrimental effects on the operating results of the associated company which may arise from an exercise of the option, and an estimate of the fair value of the underlying investment. Several of the inputs are also interdependent.

Should the significant estimations of inputs vary by plus or minus ten percent, the fair value could increase or decrease by approximately SAR 84.5 million as of September 30, 2020 (December 31, 2019: SAR 90.4 million and September 30, 2019: SAR 90.5 million) due to estimating operating results of the associated company, could increase or decrease by approximately SAR 39.7 million as of September 30, 2020 (December 31, 2019: SAR 41.6 million and September 30, 2019: SAR 39.4 million) due to estimating the detrimental effects on the operating results of the associated company which may arise from an exercize of the option, and could increase or decrease by approximately SAR 34.9 million as of September 30, 2020 (December 31, 2019: SAR 37.4 million and September 30, 2019: SAR 26.5 million) due to estimating the fair value of the underlying investment.

In all respects, the Group's significant estimates are based on experience and judgement relevant to each input, and in all cases, due care is taken to ensure that the inputs are prudent to ensure that the estimation of fair value is reasonable in the circumstances. However, any amounts which may be realized in the future may differ from the Group's estimates of fair value.

Amounts in SAR'000

18. Fair values of financial instruments – continued

c) The movement of the Level 3 fair values for the nine month periods ended September 30, 2020 and 2019, and for the year ended December 31, 2019 is summarized as follows:

	Sep. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Sep. 30, 2019 (Unaudited)
Fair values at the beginning of the year / period	939,020	933,216	933,216
Net change in fair value	(27,414)	10,406	(13,608)
Investments sold	-	(4,602)	(2,951)
Fair values at the end of the year / period	911,606	939,020	916,657

There were no transfers from either level 1 or level 2 to either level 2 or level 3 during the nine month periods ended September 30, 2020 and 2019 and during the year ended December 31, 2019.

d) The estimated fair values of financial assets and financial liabilities as of September 30, 2020, and 2019 and as of December 31, 2019 that are not carried at fair value in the interim condensed consolidated financial statements, along with the comparative carrying amounts for each are summarized as follows:

	Sep. 30, 2020 (Unaudited)	
	Carrying values	Estimated fair values
Financial assets:		
Due from banks and other financial institutions, net	1,669,743	1,669,743
Loans and advances, net	57,722,734	61,864,957
Total	59,392,477	63,534,700
Financial liabilities:		
Due to banks and other financial institutions	19,430,684	19,430,684
Customers' deposits	59,840,969	59,436,921
Term loans	2,017,486	2,017,486
Total	81,289,139	80,885,091

	Dec. 31, 2019 (Audited)	
	Carrying values	Estimated fair values
Financial assets:		
Due from banks and other financial institutions, net	3,028,515	3,028,515
Loans and advances, net	57,112,907	60,151,426
Total	60,141,422	63,179,941
Financial liabilities:		
Due to banks and other financial institutions	13,788,191	13,788,191
Customers' deposits	69,058,054	68,224,293
Term loans	2,011,626	2,011,626
Total	84,857,871	84,024,110

18. Fair values of financial instruments – continued

	Sep. 30, 2019 (Unaudited)	
	Carrying values	Estimated fair values
Financial assets:		
Due from banks and other financial institutions, net	1,145,273	1,145,273
Loans and advances, net	57,626,310	61,262,992
Total	58,771,583	62,408,265
Financial liabilities:		
Due to banks and other financial institutions	13,386,043	13,386,043
Customers' deposits	64,963,537	64,055,921
Term loans	2,012,800	2,012,800
Total	80,362,380	79,454,764

The estimated fair values of loans and advances, net are calculated using market based discounted cash flow models of individual loan portfolios using the weighted average estimated maturities of each individual loan portfolio. The estimated fair values of customers' deposits are calculated using market based discounted cash flow models of individual deposit classes using the weighted average estimated maturities of each individual deposit class. These fair value estimates are considered as level 3 in the fair value hierarchy.

The fair values of other financial instruments that are not carried in the interim condensed consolidated financial statements at fair value are not significantly different from the carrying values. The fair values of term loans, due from banks and other financial institutions and due to banks and other financial institutions which are carried at amortized cost, are not significantly different from the carrying values included in the interim condensed consolidated financial statements, since the current market special commission rates for similar financial instruments are not significantly different from the special commission rates at initial recognition, and because of the short duration of due from banks and other financial institutions.

19. Basic and diluted earnings per share

a) Basic and diluted earnings per share is calculated by dividing net income adjusted for Tier I Sukuk costs by weighted average number of the issued and outstanding shares after giving effect to the purchase of 56.2 million and 18.7 million Treasury shares on September 27, 2018 and May 28, 2019 respectively.

b) Details of basic and diluted earnings per share for the three month and nine month periods ended September 30, 2020 and 2019 are as follows:

	Three month period ended		Nine month period ended	
	Sep. 30, 2020	Sep. 30, 2019	Sep. 30, 2020	Sep. 30, 2019
Net income	301,373	311,933	714,351	308,641
Tier I Sukuk costs	(15,333)	(15,333)	(76,254)	(73,056)
Net income adjusted for Tier I Sukuk costs	286,040	296,600	638,097	235,585
Weighted average number of outstanding shares (in '000)	675,004	675,004	675,004	685,170
Basic and diluted earnings per share (SAR)	0.42	0.44	0.94	0.34

Amounts in SAR'000

20. Capital adequacy

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

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

The following table summarizes the Bank's Pillar I Risk Weighted Assets (RWA), Tier I and Tier II Capital, and corresponding Capital adequacy ratio percentages as of September 30, 2020 and 2019 and as of December 31, 2019.

	Sep. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Sep. 30, 2019 (Unaudited)
Credit Risk RWA	73,172,379	76,419,416	76,315,801
Operational Risk RWA	5,061,360	5,061,360	4,794,695
Market Risk RWA	2,125,382	1,380,148	1,246,346
Total Pillar- I RWA	80,359,121	82,860,924	82,356,842
Tier I Capital	15,610,800	14,482,246	14,434,263
Tier II Capital	741,700	648,296	556,393
Total Tier I plus Tier II Capital	16,352,500	15,130,542	14,990,656
Capital Adequacy Ratios:			
Tier I Ratio	19.43%	17.48%	17.53%
Tier I plus Tier II Ratio	20.35%	18.26%	18.20%

The Tier I and Tier II capital as of September 30, 2020 and 2019 and as of December 31, 2019 is comprised of the following:

	Sep. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Sep. 30, 2019 (Unaudited)
Total Equity	14,806,539	14,007,007	13,959,024
IFRS 9 transitional adjustment	822,556	493,534	493,534
Goodwill adjustment	(18,295)	(18,295)	(18,295)
Tier I Capital	15,610,800	14,482,246	14,434,263
Qualifying general provisions, net	741,700	648,296	556,393
Tier II Capital	741,700	648,296	556,393
Tier I plus Tier II Capital	16,352,500	15,130,542	14,990,656

Capital adequacy and the use of regulatory capital are regularly monitored by the Bank's management. SAMA requires the Bank to hold a minimum level of regulatory capital and maintain a ratio of total Regulatory capital to Risk Weighted Assets (RWA) at or above the requirement of 10.5%, which includes additional buffers as required by the Basel Committee on Banking Supervision.

As of September 30, 2020 and 2019, and as of December 31, 2019, the RWA, Tier I and Tier II capital, and capital adequacy ratios are calculated in accordance with SAMA's framework and guidelines regarding implementation of the capital reforms under Basel III.

20. Capital adequacy – continued

SAMA under its circular no. 391000029731 dated 15 Rabi Al Awwal 1439H (corresponding to December 03, 2017) on the ECL accounting transitional arrangement for regulatory capital, allowed banks to transition the Day 1 impact of IFRS 9 on regulatory capital over five years by using a dynamic approach to reflect the impact of the transition.

In April 2020, SAMA issued a guidance document entitled "*Guidance on Accounting and Regulatory Treatment of COVID-19 – Extraordinary Support Measures*". Under the guidance, banks have been allowed to add-back up to 100% of the Day 1 impact of IFRS 9 as a transitional adjustment amount to Common Equity Tier 1 (CET1) for the two year periods comprising 2020 and 2021. The add-back amount is then required to be phased-out on a straight-line basis over the subsequent 3 years. In this respect, the Group has opted to apply the transitional adjustment, and has included the Day 1 impact of IFRS 9 in its Tier I regulatory capital. As a result, the IFRS 9 transitional adjustment add back has increase to SAR 822.5 million as of September 30, 2020,

b) The following additional disclosures are required under the Basel III framework.

- Pillar III, Qualitative and quantitative disclosures (Annually);
- Pillar III, Quantitative disclosures (Semi-annually); and
- Pillar III, Quantitative disclosures (Quarterly).

These disclosures are made available to the public on the Bank's website within the prescribed time frames as required by SAMA.

21. Related party disclosures

a) In the ordinary course of its activities, the Group transacts business with related parties. Related parties, balances, and transactions are governed by the Banking Control Law and other regulations issued by SAMA. During 2014, SAMA issued an update to its Principles of Corporate Governance for Banks operating in Saudi Arabia and during 2019, SAMA issued rules on Banks exposures to Related Parties. In February 2020, SAMA revised the Related Parties Rules for Banks. These rules specify the definitions of related parties, the need to process the related transactions fairly and without preference, addresses the potential conflicts of interests involved in such transactions, and mandates transaction disclosure requirements pertaining to the related parties.

The Bank's related party identification and disclosure of transactions policy complies with the rules and guidelines issued by SAMA, and has been approved by the Bank's Board of Directors. These guidelines include the following definitions of related parties:

- Management of the Bank, their relatives and/or their affiliated entities;
- Principal shareholders of the Bank and its management;
- Affiliates of the Bank, entities for which the investment is accounted for using the equity method of accounting, their management and relatives;
- Trusts for the benefit of the Bank's employees such as pension or other benefit plans that are managed by the Bank; and
- Any other parties whose management and operating policies can be directly or indirectly significantly influenced by the Bank.

Amounts in SAR'000

21. Related party disclosures - continued

Management of the Bank includes those persons who are responsible for achieving the objectives of the Bank and who have the authority to establish policies and make decisions by which those objectives are pursued. Management therefore includes the members of the Bank's Board of Directors, CEO, GMs, their deputies, CFO, Managers of key departments, officers of risk management, Internal audit, and Compliance functions, and similar positions in the Bank, in addition to incumbents of any other positions determined by SAMA.

Principal shareholders include those owners of record of more than five percent of the Bank's voting ownership and/or voting interest of the Bank.

Relatives include spouses, children, parents, grandparents, siblings, grandchildren, and offspring to whom a member of management of either the Bank, principal shareholder, or affiliate, might control or influence or by whom they might be controlled or influenced, because of the family relationship.

b) The balances as of September 30, 2020 and 2019 and as of December 31, 2019, resulting from such transactions included in the interim condensed consolidated financial statements are as follows:

	Sep. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Sep. 30, 2019 (Unaudited)
Management of the Bank, their relatives and/or their affiliated entities:			
Loans and advances	286,839	363,327	59,874
Customers' deposits	78,798	1,084,621	440,252
Tier I Sukuk	7,000	7,000	6,000
Commitments and contingencies	1,366	88,145	4,105
Investments	-	400,727	-
Principal shareholders of the Bank and its management:			
Customers' deposits	777,832	2,448,755	5,954,800
Affiliates of the Bank, entities for which the investment is accounted for by the equity method of accounting, their management and relatives:			
Loans and advances	887,660	873,967	725,673
Customers' deposits	564,231	63,155	239,634
Tier I Sukuk	2,000	2,000	-
Commitments and contingencies	112,764	62,764	59,800
Trusts for the benefit of the Bank's employees such as pension or other benefits plans that are managed by the Bank:			
Customers' deposits and other liabilities	235,904	176,722	135,803

Amounts in SAR'000

21. Related party disclosures - continued

c) Income and expense for the nine month periods ended September 30, 2020 and 2019, pertaining to transactions with related parties included in the interim condensed consolidated financial statements are as follows:

	Sep. 30, 2020 (Unaudited)	Sep. 30, 2019 (Unaudited)
Management of the Bank, their relatives and/or their affiliated entities:		
Special commission income	3,140	49
Special commission expense	24	22
Fee income from banking services	13	38
Principal shareholders of the Bank and its management:		
Special commission expense	292	13,864
Rent and premises-related expenses (Building rental)	5,738	5,740
Affiliates of the Bank, entities for which the investment is accounted for by the equity method of accounting, their management and relatives:		
Special commission income	14,693	22,117
Special commission expense	3,667	3,970
Fee income from banking services	2,042	2,722
Board of Directors and other Board Committee member remuneration	5,890	5,430

The information presented for nine month period ended September 30, 2019 and the year ended December 31, 2019 does not reflect the requirements of the new related party rules issued during 2020 and therefore is not comparable to the information presented for September 30, 2020.

22. Tier I Sukuk

The Bank completed the establishment of a Shari'a compliant Tier I Sukuk Program (the Program) in 2016. The Program was approved by the Bank's regulatory authorities and shareholders. The Bank has issued the following Tier I Sukuk securities under the Program on the dates indicated as of September 30, 2020 and 2019 and as of December 31, 2019:

	Sep. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Sep. 30, 2019 (Unaudited)
November 16, 2016	500,000	500,000	500,000
June 6, 2017	285,000	285,000	285,000
March 21, 2018	1,000,000	1,000,000	1,000,000
April 15, 2019	215,000	215,000	215,000
Total	2,000,000	2,000,000	2,000,000

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

22. Tier I Sukuk – continued

The applicable profit rate on the Tier I Sukuk is payable in arrears on each periodic distribution date, except upon the occurrence of a non-payment event or non-payment election by the Bank, whereby the Bank may at its sole discretion (subject to certain terms and conditions) elect not to make any distributions. Such a non-payment event or non-payment election are not considered to be an event of default and the amounts not paid thereof shall not be accumulated or compounded with any future distributions.

23. Zakat and Income tax

a) The Bank's share capital and percentages of ownership as of September 30, 2020 and 2019 and as of December 31, 2019 are summarized as follows in SAR millions. The Bank's Zakat and Income tax calculations and corresponding accruals and payments of Zakat and Income tax are based on the below ownership percentages:

	Sep. 30, 2020 (Unaudited)		Dec. 31, 2019 (Audited)		Sep. 30, 2019 (Unaudited)	
	Amount	%	Amount	%	Amount	%
Saudi shareholders	6,750.0	90.0	6,750.0	90.0	6,750.0	90.0
Treasury shares (note 24)	750.0	10.0	750.0	10.0	750.0	10.0
Total	7,500.0	100.0	7,500.0	100.0	7,500.0	100.0

b) The Bank has filed the required Zakat and Income tax returns with the GAZT which are due on April 30 each year, through the year ended December 31, 2019. The Bank's Zakat and Income tax calculations and corresponding accruals and payments for Zakat and Income tax are based on the ownership percentages disclosed in note 23a.

On March 14, 2019, the GAZT published rules (the "Rules") for the computation of Zakat for companies engaged in financing activities and licensed by SAMA. The Rules are issued pursuant to the Zakat Implementing Regulations and are applicable for the periods beginning January 1, 2019. In addition to providing a new basis for calculation of the Zakat base, the Rules have also introduced a minimum floor and maximum cap at 4 times and 8 times respectively of net income. The Zakat liability for the Saudi shareholders will continue to be calculated at 2.5% of the Zakat base but it will not fall below the minimum floor nor would exceed the maximum cap as prescribed by the Rules.

c) Provisions for Zakat and Income tax for the three month and nine month periods ended September 30, 2020 and 2019 is summarized as follows:

	Three month period ended		Nine month period ended	
	Sep. 30, 2020	Sep. 30, 2019	Sep. 30, 2020	Sep. 30, 2019
Provisions for Zakat	80,193	89,793	174,484	96,136
Provisions for Income tax	-	65	-	1,830
Provisions for Zakat and Income tax	80,193	89,858	174,484	97,966

d) During 2018, the Bank agreed to settle prior year Zakat assessments with the GAZT through 2018 except for the year 2005. The settlement totaled SAR 775 million. The outstanding balance of approximately SAR 496 million is payable in equal annual instalments on December 1, 2020 and on December 1 of each year thereafter through the year 2023.

Amounts in SAR'000

24. Treasury shares

On June 14, 2018, the Bank entered into a Share Purchase Agreement with J.P. Morgan International Finance Limited (JP Morgan), to purchase 56,245,350 shares of the Bank owned by JP Morgan for SAR 13.50 per share equal to SAR 759.3 million, exclusive of transaction costs and estimated Income tax. The Bank subsequently received all required regulatory approvals and the agreement to purchase the shares was approved in an Extraordinary General Assembly meeting held on 16 Muharram 1440H, corresponding to September 26, 2018. On September 27, 2018, the Bank completed the purchase. The Treasury shares purchased include transaction costs and estimated income tax for a total cost of SAR 787.5 million.

On November 29, 2018, the Bank entered into a Share Purchase Agreement with Mizuho Bank Ltd. (Mizuho), to purchase another 18,749,860 shares of the Bank owned by Mizuho for SAR 13.50 per share equal to SAR 253.1 million, exclusive of transaction costs and estimated Income Tax. The Bank received all regulatory approvals for the purchase, and the agreement to purchase the shares was approved in an Extraordinary General Assembly Meeting held on 21 Rajab, 1440H, corresponding to March 28, 2019. On May 28, 2019, the Bank completed the purchase. The Treasury shares purchased include transaction costs for a total cost of SAR 253.5 million.

The share capital of the Bank has not been reduced as a result of these transactions with the cost of the shares purchased totaling SAR 1,041.1 million presented as a reduction of shareholders' equity.

25. Operating expenses

a) Provisions for credit and other losses for the three month and nine month periods ended September 30, 2020 and 2019 is summarized as follows:

	Three month period ended		Nine month period ended	
	Sep. 30, 2020	Sep. 30, 2019	Sep. 30, 2020	Sep. 30, 2019
Provisions for credit losses:				
Due from banks and other financial institutions (note 6c)	338	585	498	(842)
Investments (note 7c)	2,153	1,088	3,742	(37,261)
Loans and advances (note 8b)	69,986	66,552	381,940	840,964
Financial guarantee contracts (note 16c)	(15,368)	(2,167)	(5,623)	56,737
Other assets (note 11b)	187	88	411	(143)
Provisions for credit losses	57,296	66,146	380,968	859,455
Provisions for real estate losses	-	-	-	34,906
Provisions for credit and other losses	57,296	66,146	380,968	894,361

b) Other general and administrative expenses totalling SAR 216.6 million for the nine month period ended September 30, 2019 include non-recurring expenses totaling approximately SAR 26.3 million.

26. Impact of COVID-19 on ECL and SAMA Programs

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

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

The Group has also revised certain inputs and assumptions used for the determination of the ECL allowance. The revisions mainly revolved around:

- adjusting macroeconomic factors used by the Group in its ECL model including observed default rates;
- revising the scenario probabilities; and
- refining staging criteria in light of the SAMA support measures and to effectively identify exposures where lifetime ECL losses may have been triggered despite repayment holidays.

The adjustments to macroeconomic factors and scenario weightages resulted in an additional ECL provision of SAR 24.9 million for the nine month period ended September 30, 2020. The Group's ECL model continues to be sensitive to the above assumptions and is continually reassessed as part of its business as usual model refinement exercise. As with any forecasts, the projections and likelihoods of occurrence are underpinned by significant judgement and uncertainty and therefore, the actual outcomes may be different to those projected.

As the situation continues to be fluid, management considers certain effects cannot be fully incorporated into the ECL calculations at this point in time. Accordingly, management's ECL assessment includes a sector-based assessment and staging analysis depending on the impacted portfolios and macroeconomic analysis. The Bank has therefore recognized post-model overlays of SAR 164.2 million and SAR 26.8 million for the nine month period ended September 30, 2020 for its corporate and retail loan and advances portfolio respectively. The Group will continue to reassess the need for additional overlays as more reliable data becomes available and accordingly determine if any adjustment to the ECL allowance is required in subsequent reporting periods.

SAMA support programs and initiatives

Private Sector Financing Support Program ("PSFSP")

In response to the pandemic, SAMA launched the Private Sector Financing Support Program ("PSFSP") in March 2020 to provide the necessary support to the Micro Small and Medium Enterprises ("MSME") as per the definition issued by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H (corresponding to March 15, 2017). The PSFSP mainly encompasses the following programs:

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

26. Impact of COVID-19 on ECL and SAMA Programs - continued

Deferred payment program

As part of the deferred payments program, the Group was required to defer payments for six months on lending facilities to those companies that qualify as MSMEs and financing companies regulated by SAMA. The payment reliefs were considered as short-term liquidity support to address the borrower's potential cash flow issues. The Group effected the payment reliefs by deferring the instalments falling due within the period from March 14, 2020 to September 14, 2020 for a period of six months without increasing the facility tenor. The accounting impact of these changes was assessed and treated as per the requirements of IFRS 9 as a modification in terms of arrangement. This resulted in the Group recognizing a day 1 modification loss of SAR 97.3 million for the nine month period ended September 30, 2020 which is included in special commission income. The Group continues to believe that in the absence of other factors, participation in the deferment program on its own, is not considered a significant increase in credit risk.

Further to the above, on September 1, 2020, SAMA extended the deferred payments program by requiring an additional three month payment deferrals for eligible MSMEs until December 14, 2020. The Group has effected the payment reliefs by deferring the instalments falling due within the period from September 15, 2020 to December 14, 2020 for an additional three month period without increasing the facility tenure. The accounting impact of these changes has been assessed and are treated as per the requirements of IFRS 9 as a modification in the terms of the arrangement. This resulted in the Group recognizing an additional modification loss of SAR 27.4 million during the nine month period ended September 30, 2020 which is included in special commission income.

Since the inception of the deferred payments program by SAMA and by the end of Q3 2020, the Bank has recognized SAR 124.7 million of related modification losses of which SAR 78.9 million has been unwound and has been included in special commission income.

In order to compensate for the related costs that the Group is expected to incur under the SAMA and other public authorities program during the nine month period ended September 30, 2020, the Group received commission free deposits from SAMA amounting to SAR 3.8 billion with varying maturities, which qualify as government grants. Management has determined based on the communication from SAMA, that the government grant primarily relates to compensation for the modification loss incurred on the deferral of payments. The benefit of the subsidized funding rate has been accounted for on a systematic basis in accordance with government grant accounting requirement. By the end of September 30, 2020, total income of SAR 124.7 million has been recognized in special commission income and SAR 177.0 million deferred and included in other liabilities. The management has exercised certain judgment in the recognition and measurement of this grant income. During the nine month period ended September 30, 2020, SAR 47.4 million for unwinding of day 1 gain has been charged to special commission expense.

Funding for lending and Facility guarantee program

As of September 30, 2020, the Group has yet to participate in SAMA's funding for lending and facility guarantee programs.

POS and e-commerce service fee support.

Furthermore, during the nine month period ended September 30, 2020, the Group has recognized reimbursements from SAMA for the forgone POS and e-commerce service fee amounting to SAR 24.7 million.

26. Impact of COVID-19 on ECL and SAMA Programs - continued

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

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

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

In this regard, during Q2 2020, the Bank received a SAR 2.32 billion commission free deposit with a one-year maturity. Management has determined based on the communication received from SAMA, that this government grant primarily relates to liquidity support. The benefit of the subsidized funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in a total income of SAR 38.4 million, of which SAR 34.7 million has been recognized in the interim consolidated statement of income for the nine month period ended September 30, 2020 and with the remaining amount deferred.

Bank's initiative - Health care sector support

In recognition of the significant efforts that the healthcare workers are putting in to safeguard the health of our citizens and residents in response to the pandemic, the Group has voluntarily postponed loan payments for three months for all public and private health care workers who have credit facilities with the Group. This has resulted in the Group recognizing a day 1 modification loss of SAR 8.9 million for the nine month period ended September 30, 2020 which has been charged to special commission income.

27. IBOR ("Interbank Offer Rate") Transition - Interest Rate Benchmark Reforms

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

- Phase 1 – The first phase of amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures* focused on hedge accounting issues. The final amendments, issued in September 2019, amended specific hedge accounting requirements to provide relief from the potential effects of the uncertainty caused by IBOR reform. The amendments are effective from January 1, 2020 and are mandatory for all hedge relationships directly affected by the IBOR reform. The Group has adopted these amendments along with the hedging relief for pre-replacement hedges.

- Phase 2 – The second phase relates to the replacement of benchmark rates with alternative risk-free rates. Currently, there is uncertainty as to the timing and the methods of transition for phase 2. As a result, IBOR continues to be used as a reference rate in financial markets and therefore is used in the valuation of instruments with maturities that exceed the expected end date for IBOR. Therefore, the Group believes the current market structure supports the continuation of hedge accounting as of September 30, 2020.

The Group is undergoing overall transition activities and is engaging various stakeholders to support an orderly transition. The project is significant in terms of scale and complexity and will impact products, internal systems, and processes.
