THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As of and for the six month period ended June 30, 2020

(Unaudited)

THE SAUDI INVESTMENT BANK
(A Saudi joint stock company)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
Amounts in SAR'000

	Notes	Jun. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Jun. 30, 2019 (Unaudited)
ASSETS				
Cash and balances with SAMA	5a	9,170,440	10,218,816	5,198,572
Due from banks and other financial institutions, net	6a,17	2,038,835	3,028,515	4,975,688
Investments	7a,17	30,886,530	26,175,480	26,574,464
Positive fair values of derivatives	14a,17	1,018,629	1,305,076	854,210
Loans and advances, net	8a,17	58,603,139	57,112,907	56,927,117
Investments in associates	9a	951,949	994,298	978,818
Other real estate		446,678	457,679	773,900
Property and equipment, net	10a	1,090,884	1,134,495	1,128,736
Information Technology intangible assets, net	10b	270,208	254,336	241,136
Other assets, net	11a	138,678	132,994	312,125
Total assets		104,615,970	100,814,596	97,964,766
LIABILITIES AND EQUITY				
Liabilities				
Due to banks and other financial institutions	17	21,885,633	13,788,191	13,890,315
Customers' deposits	12,17	64,242,631	69,058,054	66,843,790
Negative fair values of derivatives	14a,17	354,698	315,519	88,165
Term loans	13,17	2,006,741	2,011,626	2,012,679
Other liabilities	11c	1,887,193	1,634,199	1,629,579
Total liabilities		90,376,896	86,807,589	84,464,528
Equity				
Share capital	22a	7,500,000	7,500,000	7,500,000
Statutory reserve		4,988,000	4,988,000	4,928,000
Treasury shares	23	(1,041,067)	(1,041,067)	(1,041,067)
Other reserves	7e	209,987	329,977	1,660
Retained earnings		582,154	230,097	111,645
Shareholders' equity		12,239,074	12,007,007	11,500,238
Tier I Sukuk	21	2,000,000	2,000,000	2,000,000
Total equity		14,239,074	14,007,007	13,500,238
Total liabilities and equity		104,615,970	100,814,596	97,964,766

The accompanying notes 1 to 26 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

		Three month period ended		Six month period ended	
	Notes	Jun. 30, 2020	Jun. 30, 2019	Jun. 30, 2020	Jun. 30, 2019
Special commission income		865,903	974,569	1,780,067	1,969,607
Special commission expense		256,690	414,573	588,149	828,535
Net special commission income		609,213	559,996	1,191,918	1,141,072
Fee income from banking services, net		59,366	67,464	127,813	156,193
Exchange income, net		50,770	40,838	90,553	70,264
Dividend income		-	-	14	-
Unrealized fair value through profit and loss		(6,207)	(6,631)	(14,168)	(4,452)
Realized fair value through profit and loss		(621)	1,456	3,542	1,931
Gains (losses) on FVOCI debt securities, net		771	(25)	31,339	195
Other income		-	3	3	90
Total operating income		713,292	663,101	1,431,014	1,365,293
Salaries and employee-related expenses		161,398	144,288	338,141	298,288
Rent and premises related expenses		30,082	34,528	64,697	65,363
Depreciation and amortization		36,972	35,071	73,966	69,847
Other general and administrative expenses	24b	58,482	74,142	146,813	149,459
Operating expenses before provisions for credit and other losses		286,934	288,029	623,617	582,957
Provisions for credit and other losses	24a	98,695	750,995	323,672	828,215
Total operating expenses		385,629	1,039,024	947,289	1,411,172
Operating income (loss)		327,663	(375,923)	483,725	(45,879)
Share in earnings of associates	9a	6,476	29,843	23,544	50,695
Income (loss) before provisions for Zakat and Income tax		334,139	(346,080)	507,269	4,816
Provisions (Reversals) for Zakat and Income tax	22c	71,875	(61,340)	94,291	8,108
Net income (loss)		262,264	(284,740)	412,978	(3,292)
Basic and diluted earnings (losses) per share (expressed in SAR per share)	18	0.32	(0.48)	0.52	(0.09)

The accompanying notes 1 to 26 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

	Notes	Three month period ended Jun. 30, 2020	Three month period ended Jun. 30, 2019	Six month period ended Jun. 30, 2020	Six month period ended Jun. 30, 2019
Net income (loss)		262,264	(284,740)	412,978	(3,292)
Other comprehensive income (loss)					
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		96,719	(15,115)	84,223	(20,891)
Net change in present value of defined benefit obligations due to change in actuarial assumptions		341	633	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		1,436,719	(6,139)	(170,022)	212,501
Fair value (gains) losses transferred to interim consolidated statement of income on disposal of debt securities		(771)	25	(31,339)	(195)
Share in other comprehensive loss of associates	9a	(2,317)	-	(3,193)	(283)
Total other comprehensive income (loss)		1,530,691	(20,596)	(119,990)	193,716
Total comprehensive income (loss)		1,792,955	(305,336)	292,988	190,424

The accompanying notes 1 to 26 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)

	Six month period ended June 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	-	-	-	-	412,978	412,978	-	412,978
Total other comprehensive loss	-	-	-	(119,990)	-	(119,990)	-	(119,990)
Total comprehensive income	-	-	-	(119,990)	412,978	292,988	-	292,988
Tier I Sukuk costs	-	-	-	-	(60,921)	(60,921)	-	(60,921)
Balances at the end of the period	7,500,000	4,988,000	(1,041,067)	209,987	582,154	12,239,074	2,000,000	14,239,074

The accompanying notes 1 to 26 form an integral part of these interim condensed consolidated financial statements.

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

		Six month period ended June 30, 2019 (SAR'000)							
	Notes	Share capital	Statutory reserve	Treasury shares	Other reserves	Retained earnings	Shareholders' equity	Tier I Sukuk	Total equity
Balances at the beginning of the 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 loss		-	-	-	-	(3,292)	(3,292)	-	(3,292)
Total other comprehensive income		-	-	-	193,716	-	193,716	-	193,716
Total comprehensive income (loss)		-	-	-	193,716	(3,292)	190,424	-	190,424
Treasury shares purchased	23	-	-	(253,531)	-	-	(253,531)	-	(253,531)
Tier I Sukuk proceeds	21	-	-	-	-	-	-	215,000	215,000
Tier I Sukuk Costs		-	-	-	-	(57,723)	(57,723)	-	(57,723)
Balances at the end of the period		7,500,000	4,928,000	(1,041,067)	1,660	111,645	11,500,238	2,000,000	13,500,238

The accompanying notes 1 to 26 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	Six month period ended Jun. 30, 2020	Jun. 30, 2019
OPERATING ACTIVITIES			
Net income (loss)		412,978	(3,292)
Adjustments to reconcile net income (loss) to net cash provided from operating activities			
Net accretion of discounts and net amortization of premiums on investments, net		17,022	21,135
Net change in accrued special commission income		149,121	36,616
Net change in accrued special commission expense		(126,488)	60,814
Net change in deferred loan fees		(19,363)	12,617
Gains on FVOCI debt securities, net		(31,339)	(195)
Unrealized fair value through profit and loss		14,168	4,452
Realized fair value through profit and loss		(3,542)	(1,931)
Depreciation and amortization		73,966	69,847
Gains on sales of property, equipment, and intangibles		-	(90)
Gain on sale of other real estate		(3)	-
Provisions for credit and other losses	24a	323,672	828,215
Share in earnings of associates	9a	(23,544)	(50,695)
		786,648	977,493
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		(24,015)	(44,297)
Due from banks and other financial institutions maturing after three months from acquisition date		94,788	(22,517)
Loans and advances		(1,963,378)	1,649,203
Positive fair values of derivatives		291,490	388,904
Other real estate		11,004	-
Other assets		(5,909)	(510,714)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		8,163,555	1,243,819
Customers' deposits		(4,736,673)	3,101,732
Negative fair values of derivatives		15,919	(418,853)
Other liabilities		300,009	108,840
		2,933,438	6,473,610
Zakat and Income Tax payments		(43,648)	(351,984)
Net cash provided from operating activities		2,889,790	6,121,626
INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments		1,029,022	782,434
Purchases of investments		(5,828,350)	(2,494,031)
Dividends received from associates	9a	62,700	83,960
Acquisitions of property, equipment, and intangibles		(58,998)	(77,937)
Proceeds from sales of property, equipment, and intangibles		-	350
Net cash used in investing activities		(4,795,626)	(1,705,224)

The accompanying notes 1 to 26 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 - Continued (Unaudited)
Amounts in SAR'000

	Notes	Six month period ended Jun. 30, 2020	Jun. 30, 2019
FINANCING ACTIVITIES			
Treasury shares purchased	23	-	(253,531)
Proceeds from Tier I Sukuk	21	-	215,000
Redemption of Subordinated debt		-	(2,000,000)
Tier I Sukuk costs		(60,921)	(57,723)
Net cash used in financing activities		(60,921)	(2,096,254)
Net increase (decrease) in cash and cash equivalents		(1,966,757)	2,320,148
Cash and cash equivalents			
Cash and cash equivalents at the beginning of the period		9,613,154	4,503,172
Net increase (decrease) in cash and cash equivalents		(1,966,757)	2,320,148
Cash and cash equivalents at the end of the period	5b	7,646,397	6,823,320
Supplemental special commission information			
Special commission received		1,923,361	2,006,223
Special commission paid		709,241	759,031
Supplemental non-cash information			
Total other comprehensive income (loss)		(119,990)	193,716

The accompanying notes 1 to 26 form an integral part of these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Amounts in SAR'000
For the six month periods ended June 30, 2020 and 2019

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 June 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 six month period ended June 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 July 27, 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 2019, the commercial registration of the Company has been de-registered. However, the Company is in the process of completing other formalities for certain regulatory authorities to complete the liquidation; 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 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. The benefit is accounted for in accordance with IAS 20 – *Accounting for Government Grants and Disclosure of Government Assistance.* The government grant is recognized in the interim consolidated statement of income on a systematic basis over the period in which the Group recognizes related costs for which the grant is intended to compensate. 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 June 30, 2020 and 2019 and as of December 31, 2019 are summarized as follows:

	Jun. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Jun. 30, 2019 (Unaudited
Cash on hand	1,058,247	892,087	741,643
Reverse repurchase agreements	4,590,000	6,025,000	1,384,000
Other balances, net	58,952	(137,497)	(188,598)
Cash and balances before statutory deposit (note 5b)	5,707,199	6,779,590	1,937,045
Statutory deposit	3,463,241	3,439,226	3,261,527
Cash and balances with SAMA	9,170,440	10,218,816	5,198,572

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 June 30, 2020 and 2019 and as of December 31, 2019 are comprised of the following:

	Jun. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Jun. 30, 2019 (Unaudited)
Cash and balances with SAMA excluding statutory deposit (note 5a)	5,707,199	6,779,590	1,937,045
Due from banks and other financial institutions maturing within three months from the date of acquisition	1,939,198	2,833,564	4,886,275
Cash and cash equivalents	7,646,397	9,613,154	6,823,320

6. Due from banks and other financial institutions, net

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

	Jun. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Jun. 30, 2019 (Unaudited)
Current accounts	1,711,045	373,345	546,011
Money market placements	330,037	2,657,258	4,430,953
Total due from banks and other financial institutions	2,041,082	3,030,603	4,976,964
Allowance for credit losses	(2,247)	(2,088)	(1,276)
Due from banks and other financial institutions, net	2,038,835	3,028,515	4,975,688

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Amounts in SAR'000
For the six month periods ended June 30, 2020 and 2019

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

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

	Jun. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Jun. 30, 2019 (Unaudited)
Investment grade	2,041,082	3,027,595	4,974,968
Non-investment grade	-	3,008	1,996
Total due from banks and other financial institutions	2,041,082	3,030,603	4,976,964

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

	Jun. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Jun. 30, 2019 (Unaudited)
Balances at the beginning of the year / period	2,088	2,703	2,703
Provision for credit losses	159	(615)	(1,427)
Balances at the end of the year / period	2,247	2,088	1,276

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

	Jun. 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	517	(358)	-	159
Balances at the end of the period	2,247	-	-	2,247

	Jun. 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	(1,298)	(129)	-	(1,427)
Balances at the end of the period	1,038	238	-	1,276

Amounts in SAR'000

7. Investments

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

	Jun. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Jun. 30, 2019 (Unaudited)
Fixed rate debt securities	27,545,334	22,445,349	22,889,649
Floating rate debt securities	2,831,217	3,302,072	3,283,452
Total debt securities	30,376,551	25,747,421	26,173,101
Equities	344,328	262,799	235,495
Mutual funds	127,247	126,224	125,173
Other securities	38,404	39,036	40,695
Investments	30,886,530	26,175,480	26,574,464

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 June 30, 2020 (December 31, 2019: SAR 8.6 million, and June 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 335.6 million as of June 30, 2020 (December 31, 2019: SAR 247.5 million, and June 30, 2019: SAR 226.8 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 June 30, 2020, investments include SAR 14.6 billion (December 31, 2019: SAR 10.8 billion, and June 30, 2019: SAR 11.1 billion) which have been pledged under repurchase agreements with other financial institutions.

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

	Jun. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Jun. 30, 2019 (Unaudited)
Grades 1-6 and unrated	30,376,551	25,747,421	26,169,417
Grades 7-9	-	-	3,684
Total debt securities	30,376,551	25,747,421	26,173,101

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

	Jun. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Jun. 30, 2019 (Unaudited)
Balances at the beginning of the year / period	29,659	75,480	75,480
Provision for credit losses	1,589	(45,821)	(38,349)
Balances at the end of the year / period	31,248	29,659	37,131

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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 six month periods ended June 30, 2020 and 2019 is summarized as follows:

	Jun. 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	1,589	-	-	1,589
Balances at the end of the period	31,248	-	-	31,248

	Jun. 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	(38,347)	(2)	-	(38,349)
Balances at the end of the period	33,447	3,684	-	37,131

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

	Jun. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Jun. 30, 2019 (Unaudited)
Unrealized gains on revaluation of debt securities at FVOCI before allowance for credit losses	155,973	358,923	22,056
Allowance for credit losses on debt securities at FVOCI (note 7c)	31,248	29,659	37,131
Unrealized gains on revaluation of debt securities at FVOCI after allowance for credit losses	187,221	388,582	59,187
Unrealized gains (losses) on revaluation of equities held at FVOCI	46,567	(37,656)	(60,083)
Actuarial (losses) gains on defined benefit plans	(20,348)	(20,689)	2,584
Share of other comprehensive loss of associates	(3,453)	(260)	(28)
Other reserves	209,987	329,977	1,660

Amounts in SAR'000

8. Loans and advances, net

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

	Jun. 30, 2020 (Unaudited)			
	Commercial and other	Overdrafts	Consumer	Total
Stage 1	38,043,208	2,135,217	12,157,713	52,336,138
Stage 2	4,510,232	612,803	183,974	5,307,009
Stage 3	788,520	454,947	2,973	1,246,440
Total performing loans and advances	43,341,960	3,202,967	12,344,660	58,889,587
Non performing loans and advances	288,280	1,805,288	266,314	2,359,882
Total loans and advances	43,630,240	5,008,255	12,610,974	61,249,469
Allowance for credit losses	(949,302)	(1,341,488)	(355,540)	(2,646,330)
Loans and advances, net	42,680,938	3,666,767	12,255,434	58,603,139

	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

	Jun. 30, 2019 (Unaudited)			
	Commercial and other	Overdrafts	Consumer	Total
Stage 1	34,024,960	2,066,177	13,774,522	49,865,659
Stage 2	4,082,875	1,131,506	330,212	5,544,593
Stage 3	1,066,509	826,160	2,551	1,895,220
Total performing loans and advances	39,174,344	4,023,843	14,107,285	57,305,472
Non performing loans and advances	659,588	639,456	285,803	1,584,847
Total loans and advances	39,833,932	4,663,299	14,393,088	58,890,319
Allowance for credit losses	(791,653)	(704,864)	(466,685)	(1,963,202)
Loans and advances, net	39,042,279	3,958,435	13,926,403	56,927,117

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

	Jun. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Jun. 30, 2019 (Unaudited)
Balances at the beginning of the year / period	2,405,585	1,795,576	1,795,576
Provision for credit losses	311,954	1,270,770	774,412
Write-offs, net	(71,209)	(660,761)	(606,786)
Balances at the end of the year / period	2,646,330	2,405,585	1,963,202

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 six month periods ended June 30, 2020 and 2019 is summarized as follows:

	Jun. 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)	37,966	31,141	242,847	311,954
Write-offs, net	-	-	(71,209)	(71,209)
Balances at the end of the period	417,477	215,653	2,013,200	2,646,330

	Jun. 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	(39,341)	16,383	797,370	774,412
Write-offs, net	-	-	(606,786)	(606,786)
Balances at the end of the period	300,280	151,839	1,511,083	1,963,202

i. Owing to the prevailing economic conditions, the Group has recognized an additional ECL provision of SAR 164.9 million during the six month period ended June 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 25 for details.

9. Investments in associates

a) Investments in associates include the Bank's ownership interest in American Express (Saudi Arabia) ("AMEX") of 50%, in Saudi ORIX Leasing Company ("ORIX") of 38%, and in Amlak International for Real Estate Finance Company ("AMLAK") of 32%. The movement of investments in associates for the six month periods ended June 30, 2020 and 2019, and for the year ended December 31, 2019, is summarized as follows:

	Jun. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Jun. 30, 2019 (Unaudited)
Balance at the beginning of the year / period	994,298	1,012,366	1,012,366
Share in earnings	23,544	88,156	50,695
Dividends	(62,700)	(105,709)	(83,960)
Share of other comprehensive loss	(3,193)	(515)	(283)
Balance at the end of the year / period	951,949	994,298	978,818

Amounts in SAR'000

9. Investments in associates – continued

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

	Jun. 30, 2020 (Unaudited)			Jun. 30, 2019 (Unaudited)		
	AMEX	ORIX	AMLAK	AMEX	ORIX	AMLAK
Total assets	625,417	1,247,309	3,608,654	851,050	1,131,955	3,415,848
Total liabilities	311,007	414,011	2,435,742	552,194	271,823	2,260,212
Equity	314,410	833,298	1,172,912	352,856	860,132	1,155,636
Total income	122,333	42,880	96,356	192,130	58,363	89,113
Total expenses	116,535	36,351	59,709	129,764	28,881	40,612

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

c) Subsequent to June 30, 2020, the Group sold 30% of its shares in AMLAK as part of AMLAK's Initial Public Offering ("IPO").

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

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

	Jun. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Jun. 30, 2019 (Unaudited)
Land and buildings	1,087,721	1,080,445	1,072,952
Leasehold improvements	179,341	177,916	167,836
Furniture, equipment and vehicles	406,690	404,412	494,839
Right of Use leased assets	310,317	306,889	265,291
Total cost	1,984,069	1,969,662	2,000,918
Less accumulated depreciation	(893,349)	(838,974)	(877,109)
	1,090,720	1,130,688	1,123,809
Projects pending completion	164	3,807	4,927
Property and equipment, net	1,090,884	1,134,495	1,128,736

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

	Jun. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Jun. 30, 2019 (Unaudited)
Software	423,693	404,825	353,080
Less accumulated amortization	(208,303)	(187,234)	(168,284)
	215,390	217,591	184,796
Projects pending completion	54,818	36,745	56,340
Information Technology intangible assets, net	270,208	254,336	241,136

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11. Other assets, net and other liabilities

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

	Jun. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Jun. 30, 2019 (Unaudited)
Customer and other receivables	40,212	31,736	241,831
Prepaid expenses	41,988	50,932	39,921
Others	57,089	50,712	30,708
Total other assets	139,289	133,380	312,460
Less allowance for credit losses	(611)	(386)	(335)
Other assets, net	138,678	132,994	312,125

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

	Jun. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Jun. 30, 2019 (Unaudited)
Balances at the beginning of the year / period	386	566	566
Provision for credit losses	225	(180)	(231)
Balances at the end of the year / period	611	386	335

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

	Jun. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Jun. 30, 2019 (Unaudited)
Zakat settlement liability, net	462,255	453,801	567,295
Lease liabilities	244,460	253,715	230,783
Allowance for credit losses for financial guarantee contracts (note 15c)	227,142	217,397	224,224
Employee end of service benefits	184,022	174,512	145,228
Accrued expenses and other provisions	172,359	98,477	76,990
Accrued Zakat and Income tax	139,129	88,486	6,578
Allowance for legal proceedings	73,279	73,528	75,253
Accrued salaries and employee related benefits	93,627	93,311	27,003
Customer related liabilities	65,538	80,632	113,680
Deferred fee and government grant income	132,346	12,095	11,503
Others	93,036	88,245	151,042
Total	1,887,193	1,634,199	1,629,579

12. Customers' deposits

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

	Jun. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Jun. 30, 2019 (Unaudited)
Time deposits	31,989,245	39,969,344	35,330,212
Savings deposits	2,290,371	1,698,795	1,863,691
Total special commission bearing deposits	34,279,616	41,668,139	37,193,903
Demand deposits	28,341,763	25,865,987	28,506,803
Other deposits	1,621,252	1,523,928	1,143,084
Customers' deposits	64,242,631	69,058,054	66,843,790

Amounts in SAR'000

13. Term loans

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

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

14. Derivatives

a) The table below sets out the positive and negative fair values of derivative financial instruments together with their notional amounts as of June 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.

	Jun. 30, 2020 (Unaudited)			Dec. 31, 2019 (Audited)			Jun. 30, 2019 (Unaudited)		
	Fair value		Notional	Fair value		Notional	Fair value		Notional
	Positive	Negative	amount	Positive	Negative	amount	Positive	Negative	amount
Held for trading:									
Forward foreign exchange contracts	5,927	5,150	2,435,757	4,193	2,684	2,368,748	2,287	1,627	4,554,852
Foreign exchange options	-	-	-	267	267	750,320	287	287	750,040
Commission rate swaps	121,247	120,894	6,792,219	124,364	123,861	7,260,075	149,651	150,888	9,544,812
Commission rate options	327,571	327,563	9,072,860	278,528	278,521	9,080,979	286,376	286,376	9,096,100
Held as fair value hedges:									
Commission rate swaps	-	1,510,485	12,823,937	-	591,114	12,835,216	26,089	555,971	13,401,838
Associated company put option (note 14c)	406,243	-	-	421,243	-	-	410,491	-	-
Subtotal	860,988	1,964,092	31,124,773	828,595	996,447	32,295,338	875,181	995,149	37,347,642
CSA / EMIR cash margins	157,641	(1,609,394)	-	476,481	(680,928)	-	(20,971)	(906,984)	-
Total	1,018,629	354,698	31,124,773	1,305,076	315,519	32,295,338	854,210	88,165	37,347,642

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.

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14. Derivatives - continued

As of June 30, 2020, the CSA and EMIR net cash collateral amounts held by counterparties in favor of the Bank totaled SAR 1,767 million (December 31, 2019: SAR 1,157 million, and June 30, 2019: SAR 886 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 14a. 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.

15. Commitments, contingencies, and financial guarantee contracts

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

	Jun. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Jun. 30, 2019 (Unaudited)
Letters of credit	2,543,042	2,668,759	2,193,664
Letters of guarantee	8,881,025	8,916,676	8,737,222
Acceptances	826,148	831,725	609,941
Total financial guarantee contracts	12,250,215	12,417,160	11,540,827
Irrevocable commitments to extend credit	878,796	693,076	1,023,291
Credit-related commitments and contingencies	13,129,011	13,110,236	12,564,118

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

	Jun. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Jun. 30, 2019 (Unaudited)
Stage 1	11,142,879	11,366,900	10,491,870
Stage 2	696,753	664,557	601,153
Stage 3	410,583	385,703	447,804
Total	12,250,215	12,417,160	11,540,827

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

	Jun. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Jun. 30, 2019 (Unaudited)
Balances at the beginning of the year / period	217,397	165,320	165,320
Provision for credit losses	9,745	52,077	58,904
Balances at the end of the year / period	227,142	217,397	224,224

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

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

	Jun. 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	(6,932)	4,984	11,693	9,745
Balances at the end of the period	102,403	31,659	93,080	227,142

	Jun. 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	(96)	(14,147)	73,147	58,904
Balances at the end of the period	103,943	16,991	103,290	224,224

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.

16. 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.

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16. Operating segments – continued

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

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 June 30, 2020 and 2019, and its total operating income, expenses, and Income before provisions for Zakat and Income tax for the six month periods then ended, are as follows:

	Jun. 30, 2020 (Unaudited)					
	Retail Banking	Corporate Banking	Treasury and Investments	Asset Management and Brokerage	Other	Total
Total assets	20,866,489	37,590,860	43,067,109	433,587	2,657,925	104,615,970
Total liabilities	21,456,237	8,270,719	59,767,841	27,291	854,808	90,376,896
Net special commission income (expense)	498,836	815,342	(125,100)	13,233	(10,393)	1,191,918
FTP net transfers	(18,769)	(324,005)	349,207	-	(6,433)	-
Net FTP contribution	480,067	491,337	224,107	13,233	(16,826)	1,191,918
Fee income (expense) from banking services, net	2,241	71,194	25,521	50,053	(21,196)	127,813
Other operating income (loss)	36,746	22,913	126,673	(391)	(74,658)	111,283
Total operating income (loss)	519,054	585,444	376,301	62,895	(112,680)	1,431,014
Direct operating expenses	125,770	29,920	19,942	38,476	-	214,108
Indirect operating expenses	176,088	81,902	151,519	-	-	409,509
Provisions for credit and other losses	27,843	293,856	1,746	227	-	323,672
Total operating expenses	329,701	405,678	173,207	38,703	-	947,289
Operating income (loss)	189,353	179,766	203,094	24,192	(112,680)	483,725
Share in earnings of associates	-	-	23,544	-	-	23,544
Income (loss) before provisions for Zakat and Income tax	189,353	179,766	226,638	24,192	(112,680)	507,269

	Jun. 30, 2019 (Unaudited)					
	Retail Banking	Corporate Banking	Treasury and Investments	Asset Management and Brokerage	Other	Total
Total assets	21,423,785	35,410,319	37,914,626	378,933	2,837,103	97,964,766
Total liabilities	20,163,373	6,129,640	57,254,404	11,041	906,070	84,464,528
Net special commission income (expense)	380,614	919,820	(165,163)	11,175	(5,374)	1,141,072
FTP net transfers	(53,189)	(362,195)	419,517	-	(4,133)	-
Net FTP contribution	327,425	557,625	254,354	11,175	(9,507)	1,141,072
Fee income (expense) from banking services, net	27,841	64,895	46,404	25,697	(8,644)	156,193
Other operating income (loss)	35,560	23,814	72,651	2,313	(66,310)	68,028
Total operating income (loss)	390,826	646,334	373,409	39,185	(84,461)	1,365,293
Direct operating expenses	143,731	32,260	17,146	33,196	20,505	246,838
Indirect operating expenses	144,529	67,223	124,367	-	-	336,119
Provisions for credit and other losses	421,919	412,152	(40,565)	(197)	34,906	828,215
Total operating expenses	710,179	511,635	100,948	32,999	55,411	1,411,172
Operating income (loss)	(319,353)	134,699	272,461	6,186	(139,872)	(45,879)
Share in earnings of associates	-	-	50,695	-	-	50,695
Income (loss) before provisions for Zakat and Income tax	(319,353)	134,699	323,156	6,186	(139,872)	4,816

17. 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.

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17. 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 June 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.

	Jun. 30, 2020 (Unaudited)			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Derivative financial instruments at FVTPL	-	612,386	406,243	1,018,629
Investments at FVOCI	23,618,996	6,649,588	452,295	30,720,879
Investments at FVTPL	115,742	-	49,909	165,651
Total	23,734,738	7,261,974	908,447	31,905,159
Financial liabilities carried at fair value:				
Derivative financial instruments at FVTPL	-	354,698	-	354,698
Total	-	354,698	-	354,698

	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

	Jun. 30, 2019 (Unaudited)			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Derivative financial instruments at FVTPL	-	443,719	410,491	854,210
Investments at FVOCI	18,936,427	6,999,856	472,313	26,408,596
Investments at FVTPL	125,173	-	40,695	165,868
Total	19,061,600	7,443,575	923,499	27,428,674
Financial liabilities carried at fair value:				
Derivative financial instruments at FVTPL	-	88,165	-	88,165
Total	-	88,165	-	88,165

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.

17. Fair values of financial instruments – continued

The total amount of the changes in fair value recognized in the June 30, 2020 interim consolidated statement of income, which was estimated using valuation models, is SAR 15 million loss (June 30, 2019: SAR 7.5 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 14c). 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 June 30, 2020 (December 31, 2019: SAR 90.4 million and June 30, 2019: SAR 120.5 million) due to estimating operating results of the associated company, could increase or decrease by approximately SAR 39.7 million as of June 30, 2020 (December 31, 2019: SAR 41.6 million and June 30, 2019: SAR 39.3 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 June 30, 2020 (December 31, 2019: SAR 37.4 million and June 30, 2019: SAR 25.8 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.

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17. Fair values of financial instruments – continued

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

	Jun. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Jun. 30, 2019 (Unaudited)
Fair values at the beginning of the year / period	939,020	933,216	933,216
Net change in fair value	(30,573)	10,406	(7,785)
Investments sold	-	(4,602)	(1,932)
Fair values at the end of the year / period	908,447	939,020	923,499

There were no transfers from either level 1 or level 2 to either level 2 or level 3 during the six month periods ended June 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 June 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:

	Jun. 30, 2020 (Unaudited)	
	Carrying values	Estimated fair values
Financial assets:		
Due from banks and other financial institutions, net	2,038,835	2,038,835
Loans and advances, net	58,603,139	62,385,846
Total	60,641,974	64,424,681
Financial liabilities:		
Due to banks and other financial institutions	21,885,633	21,885,633
Customers' deposits	64,242,631	63,993,474
Term loans	2,006,741	2,006,741
Total	88,135,005	87,885,848

	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

17. Fair values of financial instruments – continued

	Jun. 30, 2019 (Unaudited)	
	Carrying values	Estimated fair values
Financial assets:		
Due from banks and other financial institutions, net	4,975,688	4,975,688
Loans and advances, net	56,927,117	59,340,407
Total	61,902,805	64,316,095
Financial liabilities:		
Due to banks and other financial institutions	13,890,315	13,890,315
Customers' deposits	66,843,790	65,660,899
Term loans	2,012,679	2,012,679
Total	82,746,784	81,563,893

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.

18. 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 six month periods ended June 30, 2020 and 2019 are as follows:

	Three month period ended		Six month period ended	
	Jun. 30, 2020	Jun. 30, 2019	Jun. 30, 2020	Jun. 30, 2019
Net income (loss)	262,264	(284,740)	412,978	(3,292)
Tier I Sukuk costs	(45,755)	(42,723)	(60,921)	(57,723)
Net income (loss) adjusted for Tier I Sukuk costs	216,509	(327,463)	352,057	(61,015)
Weighted average number of outstanding shares (in '000)	675,004	686,955	675,004	690,336
Basic and diluted earnings (losses) per share (SAR)	0.32	(0.48)	0.52	(0.09)

Amounts in SAR'000

19. 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 June 30, 2020 and 2019 and as of December 31, 2019.

	Jun. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Jun. 30, 2019 (Unaudited)
Credit Risk RWA	74,959,718	76,419,416	77,473,616
Operational Risk RWA	5,061,360	5,061,360	4,794,695
Market Risk RWA	844,578	1,380,148	1,383,373
Total Pillar- I RWA	80,865,656	82,860,924	83,651,684
Tier I Capital	15,043,335	14,482,246	13,975,477
Tier II Capital	726,126	648,296	540,826
Total Tier I plus Tier II Capital	15,769,461	15,130,542	14,516,303
Capital Adequacy Ratios:			
Tier I Ratio	18.60%	17.48%	16.71%
Tier I plus Tier II Ratio	19.50%	18.26%	17.35%

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

	Jun. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Jun. 30, 2019 (Unaudited)
Total Equity	14,239,074	14,007,007	13,500,238
IFRS 9 transitional adjustment	822,556	493,534	493,534
Goodwill adjustment	(18,295)	(18,295)	(18,295)
Tier I Capital	15,043,335	14,482,246	13,975,477
Qualifying general provisions, net	726,126	648,296	540,826
Tier II Capital	726,126	648,296	540,826
Tier I plus Tier II Capital	15,769,461	15,130,542	14,516,303

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 June 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.

19. 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 June 30, 2020,

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

- Pillar III, Qualitative disclosures (Annually);
- Pillar III, Quantitative disclosures (Semi-annually);
- Capital Structure (Quarterly);
- Liquidity Coverage Ratio (Quarterly);
- Leverage Ratio (Quarterly).

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

20. 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

20. 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 June 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:

	Jun. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Jun. 30, 2019 (Unaudited)
Management of the Bank, their relatives and/or their affiliated entities:			
Loans and advances	290,092	363,327	28,771
Customers' deposits	81,627	1,084,621	241,861
Tier I Sukuk	7,000	7,000	6,000
Commitments and contingencies	2,054	88,145	100
Investments	-	400,727	-
Principal shareholders of the Bank and its management:			
Customers' deposits	822,805	2,448,755	5,846,371
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	790,031	873,967	696,752
Customers' deposits	441,323	63,155	1,831,387
Tier I Sukuk	2,000	2,000	-
Commitments and contingencies	112,764	62,764	164,851
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	184,022	176,722	2,866

Amounts in SAR'000

20. Related party disclosures - continued

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

	Jun. 30, 2020 (Unaudited)	Jun. 30, 2019 (Unaudited)
Management of the Bank, their relatives and/or their affiliated entities:		
Special commission income	3,096	188
Special commission expense	28	1,010
Fee income from banking services	11	22
Principal shareholders of the Bank and its management:		
Special commission expense	292	13,864
Rent and premises-related expenses (Building rental)	3,824	3,826
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	13,394	14,210
Special commission expense	3,382	2,858
Fee income from banking services	1,477	1,591
Board of Directors and other Board Committee member remuneration	4,105	3,916

The information presented for six month period ended June 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 June 30, 2020.

21. 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 June 30, 2020 and 2019 and as of December 31, 2019:

	Jun. 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Jun. 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.

21. 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.

22. Zakat and Income tax

a) The Bank's share capital and percentages of ownership as of June 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:

	Jun. 30, 2020 (Unaudited)		Dec. 31, 2019 (Audited)		Jun. 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 23)	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, 2018. The Zakat and Income tax return for the year ended December 31, 2019 is due on July 31, 2020. 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 22a.

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 six month periods ended June 30, 2020 and 2019 is summarized as follows:

	Three month period ended		Six month period ended	
	Jun. 30, 2020	Jun. 30, 2019	Jun. 30, 2020	Jun. 30, 2019
Provisions (Reversals) for Zakat	71,875	(62,284)	94,291	6,343
Provisions for Income tax	-	944	-	1,765
Provisions (Reversals) for Zakat and Income tax	71,875	(61,340)	94,291	8,108

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

23. 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.

24. Operating expenses

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

	Three month period ended		Six month period ended	
	Jun. 30, 2020	Jun. 30, 2019	Jun. 30, 2020	Jun. 30, 2019
Provisions for credit losses:				
Due from banks and other financial institutions (note 6c)	433	(885)	159	(1,427)
Investments (note 7c)	565	(35,456)	1,589	(38,349)
Loans and advances (note 8b)	85,656	752,692	311,954	774,412
Financial guarantee contracts (note 15c)	11,923	34,796	9,745	58,904
Other assets (note 11b)	118	(152)	225	(231)
Provisions for credit losses	98,695	750,995	323,672	793,309
Provisions for real estate losses	-	-	-	34,906
Provisions for credit and other losses	98,695	750,995	323,672	828,215

b) Other general and administrative expenses totalling SAR 149.5 million for the six month period ended June 30, 2019 include non-recurring expenses totaling approximately SAR 20.5 million.

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

In March 2020, the World Health Organization ("WHO") declared the Coronavirus ("COVID-19") outbreak as a pandemic in recognition of its rapid spread around the globe. Governments worldwide have taken steps to contain the spread of COVID-19. This outbreak has also affected the GCC region including KSA. KSA in particular has implemented the closure of its borders, issued social distancing guidelines and has enforced country wide lockdowns and curfews.

Oil prices are also significantly volatile, owing not just to demand issues arising from the pandemic, but also due to excess supply driven by production volume which had predated the pandemic. The oil prices have shown some recovery during Q2 2020 due to an increase in demand as countries emerged from lockdowns coupled with cut backs in production from oil producing countries.

The Group has evaluated the financial impact of the pandemic by conducting stress testing scenarios on expected movements of oil prices and the resulting impact on key credit, liquidity, operational, solvency and performance indicators. The steps taken by the Bank's management in response to the pandemic include reviews of credit exposures across economic sectors and regions and by counterparties. This also includes an assessment of the adequacy of collateral, timely review and customer credit rating actions and appropriately restructuring loans, where required. These actions have also taken into consideration the impacts of government and SAMA support relief programs.

The pandemic and the prevailing economic conditions also require the Group to revise certain inputs and assumptions used for the determination of the ECL allowance. These primarily revolve around adjusting macroeconomic indicators used by the Group in estimation of the ECL and revisions to the scenario probabilities in the ECL allowance estimation. The adjustments to macroeconomic factors and scenario weightages resulted in an additional ECL provision of SAR 24.9 million for the six month period ended June 30, 2020. 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. Determining the financial impact of the pandemic requires judgement and the Group will continue to reassess its position and the related impact on a regular basis.

The Group has also recognized an additional ECL provision of SAR 140.0 million as a post-model overlay adjustment for the six month period ended June 30, 2020 for its corporate loans and advances portfolio. These have been based on a sector-based assessment performed by the Group for the impacted portfolios. The Group will continue to individually assess significant exposures as more reliable data becomes available and accordingly determine if any adjustment in the ECL is required in subsequent reporting periods.

SAMA support programs and initiatives

In response to the pandemic, SAMA launched the Private Sector Financing Support Program ("PSFSP") in March 2020 to provide support to 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;
- Funding for lending;
- Loan guarantee; and
- Point of sale ("POS") and e-commerce service fee support.

As part of the deferred payments program, the Group is 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 deferrals are considered as short-term liquidity support to address borrower's potential cash flow issues. The Group has effected the payment deferrals for 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 payment deferrals has been assessed and treated as per the requirements of IFRS 9 as a modification in the terms of arrangement. This resulted in the Group recognizing a day 1 modification loss of SAR 76.6 million for the three month period ended March 31, 2020 which is included in special commission income.

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

To give effect to the guidance issued by SAMA in April 2020, the Group has also deferred MSME customers classified as Stage 2, financing companies regulated by SAMA and other stage 1 customers which have met the definition of MSME during the three month period ended June 30, 2020 for 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. This has resulted in the Group recognizing an additional day 1 modification loss of SAR 20.7 million for the three month period ended June 30, 2020 which is included in special commission income.

In the absence of other factors, participation in this deferment is not considered a significant increase in credit risk. During the six month period ended June 30, 2020, SAR 40.6 million of income for unwinding of day 1 modification losses has been included in special commission income.

In order to compensate for the related costs that the Group incurs under the SAMA support programs and initiatives, the Group received a SAR 1.05 billion commission free deposit from SAMA for three years during three month period ended March 31, 2020. Management had determined based on the communication from SAMA, that the government grant primarily relates to compensation for the modification loss incurred on the deferral of instalments. 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 gain of SAR 101.3 million, of which SAR 76.6 million was recognized immediately in special commission income during the three month period ended March 31, 2020 and SAR 20.7 million recognised during three month period ended June 30, 2020, with the remaining amount deferred and included in other liabilities.

During Q2 2020, the Bank received additional commission free deposits of SAR 1.18 billion from SAMA. The deposits are for a period of three years and the benefit of the subsidized funding rate has also been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in a gain of SAR 101.8 million which has been deferred and included in other liabilities.

During the six month period ended June 30, 2020, SAR 14.7 million for unwinding of day 1 gain has been charged to special commission expense.

On July 16, 2020, the Group received an additional SAR 1.6 billion in commission free deposit from SAMA for a period of three years, also to compensate for the related costs that the Group incurs under the SAMA support program and initiatives.

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 SAR 2.32 billion profit free deposit with one-year maturity. Management has determined based on the communication received from SAMA, that this government grant primarily relates to liquidity support. The benefit of the 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 13.7 million has been recognized in the interim consolidated statement of income as of June 30, 2020 and with the remaining amount deferred.

As of June 30, 2020, the Group is yet to participate in SAMA's funding for lending and loan guarantee programs. Furthermore, during the six month period ended June 30, 2020, the Bank has recognized a receivable of SAR 10.8 million to be reimbursed to the Group for POS and e-commerce service fee. However, since the ultimate beneficiaries in this case are the customers, therefore, it is not treated as the grant income for the Group under IAS 20.

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

In April 2020, SAMA issued a guidance document entitled "*Guidance on Accounting and Regulatory Treatment of COVID-19 - Extraordinary Support Measures*". The Group has considered the guidance issued in the preparation of its interim condensed consolidated financial statements.

Health care sector support

In recognition of the significant efforts that the healthcare workers are putting in to safeguard the health of 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 six month period ended June 30, 2020 which has been charged to special commission income. During the six month period ended June 30, 2020, SAR 0.6 million of income for unwinding of day 1 modification losses has been included in special commission income.

26. 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 June 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.
