البنك السعودي الفرنسي
Banque Saudi Fransi

Investing **in the future**

Banque Saudi Fransi Annual Report 2019

Banque Saudi Fransi (BSF) is a Saudi Arabian Joint Stock Company established in 1977. BSF offers financial services in Corporate Banking, Retail Banking, Private Banking and Global Markets. The Bank also provides investment banking, asset management, investment funds and brokerage services through its subsidiary Saudi Fransi Capital.

Highlights

Revenue

6,873m

2017	2018	2019
6,576	6,799	6,873

Dividends per share

2.0

2017	2018	2019
1.4	1.7	2.0

Profit before zakat and tax

3,619m

2017	2018	2019
3,532	3,307	3,619

Net Interest Margin

3.04%

2017	2018	2019
2.50%	2.85%	3.04%

Basic earnings per share*

2.60

2017	2018	2019
2.69	1.17	2.60

*After zakat and tax

Operating expenses (before provision)

2,287m

2017	2018	2019
2,387	2,291	2,287

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Chairman's Statement

Investing in the future

I am pleased to report that 2019 was a strong year for Banque Saudi Fransi.

I am pleased to report that 2019 was a strong year for Banque Saudi Fransi. Against the backdrop of an uncertain economic environment both locally and globally, we achieved strong financial results, including a 9.4 percent increase in net income before Zakat, a 4.2 percent increase in loans and advances, and a nearly 20 percent drop in impairment charges.

Achieving performance targets

As we evolved in 2019, the Bank continued to register growth, with reported revenues of SAR 6.9 billion, up 1.1 percent from last year, driven by higher interest income and partially offset by lower trading income. When excluding the impact of capital gains from the sale of Allianz Saudi Fransi stake in 2018, revenue growth in 2019 was 2.6 percent over 2018.

We recognise that the Bank's success is predicated on the successful implementation of our mission to improve the customer experience and earn our customers' loyalty every day. This means providing products and services that enrich our customers' lives by developing as a fully universal bank with a strong retail presence and a better balance of corporate and retail business.

We understand the centrality of digitisation to this vision, and so we are committed to being a leader in the Kingdom's banking sector in the deployment of digital solutions and technologies. Our goal, put simply, is to become a digital-first bank.

A historic transition

Our management teams succeeded in delivering strong results during a period of transition at the Board and shareholder level, including the appointment of new Board members and a new Chairman. Following its divestment of a six percent stake in 2019, shareholder Credit Agricole no longer has representation on the Banque Saudi Fransi Board.

At this important milestone, we celebrate the long history and valuable legacy that links Credit Agricole to the founding and development of Banque Saudi Fransi over the past 43 years. We are a stronger organisation for having been on this four-decade journey with one of France and Europe's leading banks.

Building strength for the journey ahead

In 2019, the macroeconomic situation included a relatively low interest rate environment coupled with continued global trade uncertainty. Modest GDP growth was observed globally and regionally. In the Kingdom, growth was constrained, as the groundwork was completed and initial steps were taken regarding Saudi Vision 2030 reforms and initiatives, and giga-project development was getting off the ground. While Vision 2030 is expected to contribute to the long-term growth of Saudi Arabia, the near-term economic outlook in the Kingdom and in the world as a whole is highly uncertain given the ongoing effects of COVID-19.

With this complex economic backdrop, we continued to strengthen our approach to managing risk and liquidity, which include updating our internal risk and liquidity metrics and analyses. We aim to closely monitor our liquidity position and the quantum of risk the Bank is willing to accept in order to withstand any potential impact from COVID-19 while best positioning the Bank to achieve its strategic objectives in the long-term. To this end, we continue to re-examine lending guidelines, including, inter alia, credit quality, industry exposures, maturity and concentration. We have also taken additional steps in the areas of: risk identification, including a separate portfolio management function; measurement, through collaboration with Moody's Analytical Services; and monitoring, through process improvements and restructurings.

Supporting these efforts, we updated policies and governance charters across risk areas and dimensions to align with global best practices, notably in areas such as liquidity management, operational risk and loss data policies, corporate cyber security policy, model governance and credit committee charter.

Driving the vision

One of the most significant drivers of change and opportunity in the Saudi banking sector is Saudi Vision 2030. We are proud to support Vision 2030 and were a major contributor to the successful 2019 Saudi Aramco initial public offering. This represented a critical milestone for Saudi Vision 2030, for Tadawul, and for the Kingdom's energy sector. Saudi Fransi Capital was a leading joint bookrunner and did an exceptional job supporting clients and employees looking to participate in the share offering. We also are working to assist in the financing of key Saudi Vision 2030 giga-projects.

As one of the Kingdom's leading banks, we are proud to support Saudi Arabia in Chairing the G20 Summit in November, and we are preparing to contribute at the individual and institutional level. Saudi banks are participating as cornerstone sponsors of the B20, the business-focused

> **"We are proud to support Vision 2030 and were a major contributor to the successful 2019 Saudi Aramco initial public offering."**

conversation of the G20 Summit. We have developed a full year of activities and engagements, with a focus on small and medium enterprises and the UN Sustainable Development Goals.

Investing in the future

We are investing in the future, even as we witness the rapid transformation coming to local and global markets, economies, regulations, technology and customer behaviour. We remain focused on developing and leading with local talent, while promoting diversity and inclusion throughout our organisation.

In addition to providing products and solutions that help our customers and the Kingdom thrive in these changing times, we are also continuously strengthening our customer relationships. To this end we organised the first BSF Leaders Forum in London during the year, bringing together over 250 senior business leaders, decision makers and other thought leaders from across the Kingdom and around the world to explore the theme: "When change is the only constant". This highly successful event deepened personal and business relationships, and provided a platform for future opportunities.

I would like to thank my fellow members of the Board of Directors for their commitment to this organisation. To the Saudi government leadership and regulators, we thank you for your vision to create a supportive and encouraging business environment. To our partners, we appreciate your cooperation, and to our shareholders, we express our deep appreciation for your trust and confidence in Banque Saudi Fransi and our vision for the Bank today and in the future.

Mazin Al Romaih
Chairman

At a Glance

The Kingdom's trusted banking partner

Banque Saudi Fransi has been a cornerstone of the Saudi banking sector for over four decades, providing the financial advisory and services to the individuals and organisations that are fundamental to the sustained stability and strong growth of the Kingdom's economy.

Through long-term customer relationships and a sustained commitment to customer-focused innovation, we offer a comprehensive suite of market-leading products and award-winning platforms, supported by a premium customer experience.

With over 2,690 employees spread across our Riyadh headquarters, our regional offices in Jeddah, Riyadh and Al-Khobar, and our 87 branches, we have the talent and broad national footprint to serve countless people and communities across the Kingdom.

With visionary leadership, robust governance and a clear strategy – designed to enhance our core while unlocking shareholder value through strategic growth beyond our core and digital transformation for greater efficiency and customer experience – we are investing for a better future for all our stakeholders.

Our Mission

To become the most modern, innovative and experience focused bank in the region.

Our values

True to ourselves, always
We are honest with one another, even at the risk of temporary disharmony. It is never personal.

Us before me
We put ideas before ego and leverage the expertise of others.

Keep it simple
We strive to make everything we do as simple as possible. We set our people up for success and then get out of their way. We own it.

Winning is fun
We seek to be number one in the hearts and minds of our people, customers and shareholders. We have limitless ambition and the drive to win.

We are BSF
Always putting the needs of our people, customers, shareholders and society ahead of our own personal agenda. We are a community that we defend and protect, always.

Think big, act quick
We think long-term in our decisions, but we make them quickly and have a bias towards action.

Employees
2,693

Total POS
29,541

Total ATM network including Cash Acceptance Machines
569

Regional offices
3

Full-fledged branches
87
including 1 dedicated self-service centre

Strategic progress and ambition

We executed our LEAP corporate strategy with focus and determination, making substantial progress during the year across our four strategic pillars, while staying true to our values and investing in the future to become the most modern, innovative and experience focused bank in the region.

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MD & CEO's Statement

I am pleased to present the 2019 Annual Report for Banque Saudi Fransi, one of Saudi Arabia's oldest banks which is truly integrated into the fabric of the Kingdom's society and economy. We are proud to have been a strong and significant partner in this nation's amazing and ongoing journey, making important contributions during the year for the benefit of the Saudi government, corporations and people.

As this Annual Report demonstrates, 2019 saw the Bank continue to execute with agility, innovation and purpose to ensure we are ready to meet the many opportunities that the future presents. Across our business lines and subsidiaries, we executed our strategy with precision and success, while investing in the future through our people, culture and technology.

Bold approach, big results

To guide this investment, we developed a bold approach in 2018 – our five-year strategy, LEAP. We continued to implement it with success in 2019, making significant strides across all five key priority areas. In shareholder value, we delivered a 0.8 percent increase in the return on average equity; in resilience, we saw increases in earnings per share and dividends per share, despite the prevailing market environment. We achieved efficiency improvements, as reflected in a falling cost-to-income ratio, while we delivered on an improved customer experience across the organisation. We also took steps to make the Bank an even more attractive place to work, resulting in a 27.2 percent increase in the employee net promoter score.

Through the LEAP implementation, we're working to become the leading bank in the Kingdom. For 2019, that meant we solidified our leadership in Corporate

Banking, while in Retail Banking, we scaled up our product offerings and expanded our reach, both in person and online. We continued to deliver and build upon our industry-leading Private Banking offering, and we likewise reinforced our strength in our Global Markets business. Complementing these business-specific accomplishments, across the organisation, we further digitised our back-office operations and front-office customer experiences. As a result, we achieved operating efficiencies and better engagement with our customers.

Our business lines deliver

As a result, we delivered a strong income performance, with net income after Zakat growing by 122 percent, as a result of higher interest income, lower provisioning and lower Zakat and tax expenses. Net income before Zakat also was up, by a strong 9.4 percent, and excluding the impact of the sale of an 18.5 percent stake in Alliance Saudi Fransi to Allianz Europe BV, net income before zakat was up by double digits (12.8 percent). We also saw impairment charges fall, by nearly 20 percent year on year.

Balance sheet highlights include a 4.2 percent increase year on year for loans and advances, primarily driven by huge growth in new mortgage loans from our Retail Banking business.

We continued to deliver exceptional quality products and services to our clients in our flagship Corporate Banking business. We expanded our operations in structured finance and supported Saudi Vision 2030 by growing our customer base and offerings for Micro-Small and Medium Enterprises (MSMEs).

Other highlights include an outstanding performance from Retail Banking, particularly in home loans, which jumped by more than 131 percent. The business also grew its market share, delivered a strong sales performance, and lowered operating costs resulting in net operating income growth of 46.5 percent.

Saudi Fransi Capital was a key player in the historic Saudi Aramco initial public offering, and also secured several other high-profile equity and M&A mandates.

Saud Fransi Leasing grew its business, with new finance bookings growing by 68 percent, primarily for the financing of luxury vehicles, while Saudi Fransi Assurance successfully rebalanced its portfolio from deriving 90 percent of revenue from writing retail policies and 10 percent to commercial, to an even 50 percent for each line.

A culture that engages and inspires

While these strong results reflect our progress in implementing the LEAP strategy, we also understand that the strongest driver of success for the Bank is our people and the corporate culture and values that they inhabit and embody. As an organisation, our mission is to become the most modern, innovative and experience focused bank in the region. Our people pursue this goal in their work, inspired by the idea that the ultimate objective and purpose of any great organisation, including our own, is to improve people's lives. We are committed to serving the people, the companies and the national goals of Saudi Arabia.

As these goals indicate, we are increasingly aware of the need for companies to operate with an eye to all stakeholders and to adopt an approach that is more sustainable and inclusive. As we serve our shareholders, our customers, our employees and our communities, we aspire to be a model for the future of banking in the region and to lead the way in diversity and inclusion.

A sustainable commitment to our communities

Part of being a model bank is recognising our responsibility to uplift the communities and people we serve across the Kingdom. Towards that end, in 2019 we began work to create a new corporate social responsibility (CSR) framework and a more structured approach that will allow us to better measure the impact of our initiatives.

In 2020, the Bank will finalise this strategic CSR framework and approach, and we will begin to implement it, in part through the continued delivery of services and resources to the community, and through support to major events and initiatives.

COVID-19: Some thoughts on the evolving landscape

Over the last few weeks, there has been increasing uncertainty resulting from the global COVID-19 pandemic, which is reflected in the significant market volatility. We have managed through volatile markets before – it is core to what we do – and we know that it is essential to remain focused and close to our clients.

It is possible that the global health situation could become more difficult — but there's nothing more important to my management team and me than ensuring the health and safety of our people, and we are confident that the Bank is appropriately prepared.

We will support government efforts to tackle the COVID-19 outbreak by sharing key information and best practices.

MD & CEO's Statement continued

I have worked closely with my management team to ensure we have robust plans in place to minimise any disruption to all our stakeholders as a result of COVID-19. We will support the continuity of our operations and our ability to serve our clients by implementing a Business Continuity Planning strategy across groups, divisions and regions. The Bank's senior leadership is meeting on a daily basis to coordinate our response, reacting to the rapidly evolving situation and ensuring we are appropriately positioned.

We adjusted our personal and professional lives in ways that may be uncomfortable. It is in tough times that our values are put to the test and I must say that I am incredibly proud to see how the BSF community is standing strong in the face of adversity. Our resilience will not only lead to a more united team but will also allow the Bank to reach even greater heights.

Above all, we want to protect our people. as we continue to serve our clients when they need us most.

Optimism today and tomorrow

While our people and our business lines accomplished an enormous amount of progress in 2019, the pace of technological, market and even social change means that we as a bank must continue to press innovation and leverage high-potential opportunities. We have identified artificial intelligence (AI), machine learning, and big data and analytics as game-changing technologies for the banking and finance sector.

There is little doubt that digital banking and new types of big-data-fuelled financial services will disrupt the market. We see this and are not waiting for this to happen. We are acting today to ensure we are among the disruptors. Our Strategy & Digital Group, which is our in-house digital lab, is already experimenting and prototyping platforms and products for a better customer experience.

As a leading Saudi bank, we will continue to support Saudi Vision 2030, particularly the Financial Sector Development Program and the Housing Program. We also will play our part in supporting the G20 and related engagement groups (e.g. B20 and W20), which is being Chaired by Saudi Arabia this year.

There is no doubt that the 2020s represent an exciting time to be a leading financial institution in Saudi Arabia. With a vibrant society, a diversifying economy and an ambitious nation, the opportunities are enormous, but only if we adapt and innovate to meet the future head-on. And yet, we will never lose sight of the human connection with customers that remains at the core of everything we do.

We're preparing for and optimistic about our future and our ability to deliver lasting value to our stakeholders and shareholders. As this year's Annual Report details, we're not just talking about this future, we're taking actions and making investments across our organisation – truly investing in the future.

I would like to conclude by thanking the Chairman and members of the Board of Directors for their continued guidance and support. To our customers, I offer thanks for your continued trust in our institution and our people. To our employees, I extend a hand of thank you, for as I have already made clear, our success is due to the dedication and efforts of our employees. I would also like to thank our regulators, who are working tirelessly to oversee a sound and stable banking infrastructure.

Supported by this shared community, the Bank is ideally positioned to build on the successes of 2019 to create a better future for all our stakeholders and for the people of Saudi Arabia.

Rayan Fayez
Managing Director &
Chief Executive Officer

Market Overview

Trends influencing the banking sector

The business environment influencing the Saudi banking sector is impacted by both global and local trends, ranging from international trade tensions and modest global growth to accelerating local business activity driven by Saudi Vision 2030 and increasing competition within the Kingdom's banking sector.

In 2019, the global economy experienced broad-based growth, inflation was subdued and unemployment fell to multi-year lows in key regions, while the outlook for economic growth and geopolitical risk was monitored throughout the year. As a result of the pandemic, the global economy is projected to contract sharply from 2.9 percent in 2019 to -3 percent in 2020, according to the IMF. In a baseline scenario, which assumes that the pandemic fades in the second half of 2020 and containment efforts are gradually unwound, the global economy is projected to grow by 5.8 percent in 2021 as economic activity normalises, helped by policy support. The risks for more severe outcomes, however, are substantial. The COVID-19 pandemic is expected to severely impact growth across all regions. In the Middle East and Central Asia region, growth is expected to contract from 1.2 percent in 2019, to -2.8 percent in 2020 before growing by 4.0 percent in 2021.

Aside from regional growth prospects, geopolitical risks in the region, the COVID-19 virus, and associated oil price volatility are key concerns that BSF is monitoring in order to minimise impact.

Given the global nature of finance, technology and the internet, banks in the region also are feeling the impact of global banking trends. The borderless nature of the sector provides an opportunity for regional banks, including BSF, to pioneer innovations that could have an impact, not only locally and regionally, but globally as well.

Global Banking Trends

Some of the most significant global trends impacting, or soon to impact, the Saudi banking sector include:

- **Digitised customer journeys:** Digitised customer experiences and fully digital sales and marketing propositions
- **Physical footprint and channel transformation:** Branch footprint and format transformation, increased automation, and transformation of contact centres
- **Ecosystems:** Expansion of partnerships involving traditional banks, FinTech, BigTech, and asset management, among others
- **New business models and entrants:** The rise of digital competitors in FinTech selectively targeting parts of the banking value chain, and increasing competition from BigTech (e.g., Facebook, Apple)
- **New technologies landscape:** Across advanced analytics, robotics, blockchain, core banking system architecture and infrastructure, cloud services, and cyber security

A number of these trends are being enabled by artificial intelligence (AI) and machine learning. These technologies will unlock major advances in areas such as customer experience, personalised financial advice, process automation and administrative work – all of which can help lower bank operating costs. BSF's Strategy & Digital Group is an in-house digital lab that is using technologies such as AI, machine learning and data analytics as part of its experimentation and prototyping to address customer demands for more data, more insights and improved services.

Middle East and Central Asia GDP growth in 2019

1.2%

Local Implications: Customer Opportunities

These trends are combining to create new opportunities and value pools by, for example, addressing segment demand through lower cost models and channels, or by widening market access through new partnerships. The implications for banks in Saudi Arabia and beyond are manifold. The customer experience will become the key battleground in an increasingly competitive market. Core to this competition will be the ability to satisfy needs with omni-channel and digital journeys that are becoming the new norm for customer expectations.

Banks also will need to expand beyond their traditional core operations, with technology representing an opportunity for the banks to tap new revenue pools, even as they face disintermediation of the revenue pool in some segments. To succeed, banks will need to embrace a modern IT architecture as a prerequisite to competing in this new banking era.

Local Environment

Three key trends dominate the local banking sector: growth opportunities created by Saudi Vision 2030 implementation, including, more specifically, its Financial Sector Development Program (FSDP); increased regulatory activity; and greater competition within the sector.

Vision 2030 and FSDP can help open the Kingdom to foreign investment, boost exports, stimulate the private sector and the non-oil contribution, drive SME sector growth, expand mortgage financing and home ownership, advance capital markets, and enhance citizen financial stability. Banks play a crucial role across all these area by providing trade finance, home mortgages, personal loans and savings products. They will also help by establishing new alternative financing products.

Billions of dollars of foreign direct investment have flowed into the Kingdom as a result of Vision 2030 programmes, alongside billions more in foreign equities investment. At the same time, Vision 2030's National Transformation Program (NTP), which has a budget of USD 71.5 billion, comprises hundreds of initiatives in areas across the Saudi economy, including USD 35 billion linked to private sector-related initiatives.

The successful SAR 96 billion initial public offering (IPO) of the Saudi Arabian Oil Company (Saudi Aramco) on the Saudi Stock Exchange (Tadawul) provides an additional boost to capital market activities, with investors looking beyond Saudi Aramco to other Tadawul blue chip companies, including well-run Saudi banks. Financials dominate the exchange, so they will be on the radar of active fund managers. As well, there is likely to be an increasing attention on the Saudi market thanks to the Saudi Aramco listing.

Regulation and Competition

At the same time, expanding regulatory requirements bring additional need for banks to develop specific capabilities and controls to ensure compliance. Added to this is the impact of new entrants and disruptive business models, enabled by local regulations designed to stimulate innovation. Sandboxed environments for FinTech companies is one example.

Lastly, the landscape is becoming increasingly competitive, as the Saudi market attracts new international players and local banks consolidate. Regional banks and global players are looking to expand into Saudi Arabia, forcing local banks to review their value propositions and redraw the lines on where and how to compete. Most recently, competitors have pursued strategic mergers and acquisitions in order to ensure competitiveness through scale (optimising efficiencies and ensuring business resilience from diversified portfolios) and maintaining top-quartile returns.

Overall, the market opportunities and avenues for pioneers to innovate new products and services create an exciting background for BSF to continue rolling out its LEAP strategy and building its customer base, as it supports the broader economic goals of Saudi Arabia and its leadership.

Our Business

Long-term investment

Institutional Banking Group

Corporate Banking

Private Banking

Islamic Banking

Global Transactions Banking

Financial Institutions

Retail Banking Group

Global Markets Group

Subsidiaries

Saudi Fransi Capital

Saudi Fransi Leasing

Saudi Fransi Agency

Joint venture

Allianz Saudi Fransi

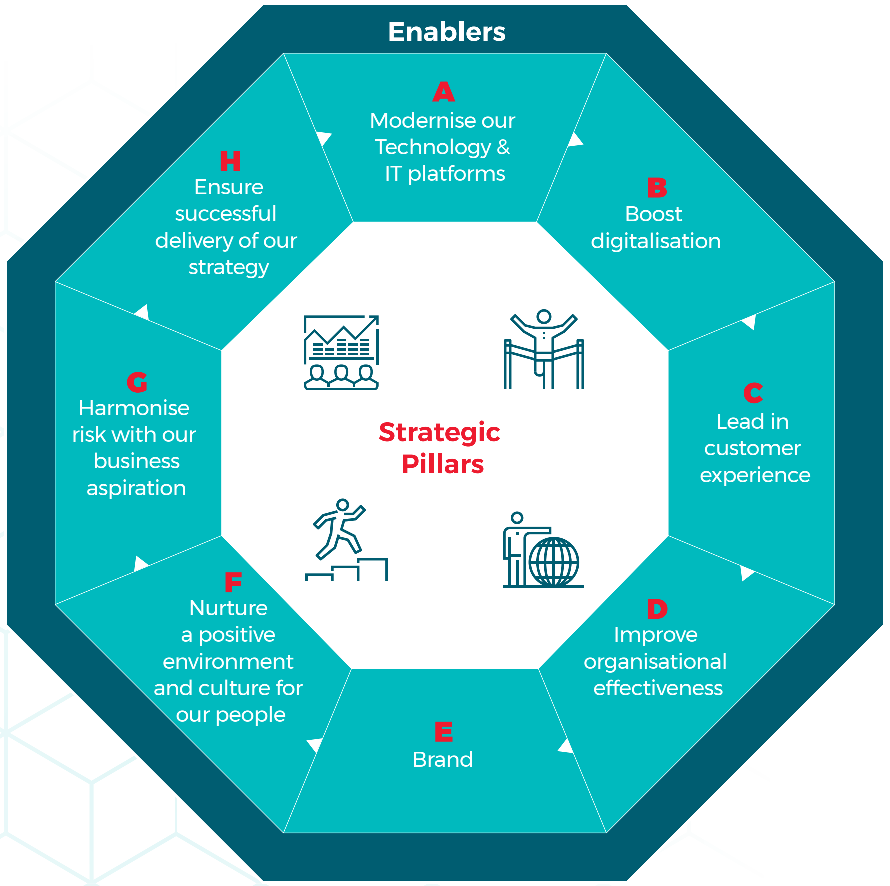
Supported by:

Finance	HR	Operations, IT, Premises and Procurement	Legal	Risk	Internal Audit	Compliance	Strategy, Digital, Customer Experience, Delivery and Marketing

Our Strategy

Driving a successful future

To achieve and sustain 10% market share in the Kingdom by becoming the most modern, innovative and experience focused bank in the region.



Our strategic pillars	What we did	Our ambitions
Solidify our leadership position in Corporate Banking	- Launched Vision Realisation Program to capture opportunities related to Vision 2030. - Improved MSME standing with Kafalah guarantee programme by growing guaranteed facilities by 172%. - Appointed key financial advisor and secured lead arranger mandates on landmark transactions for key Saudi and regional corporates.	- Grow with the market - Protect our market share - Boost our returns and profitability - Be the best in client service and loyalty
Scale up in Retail Banking	- Grew asset market share by 33.1% in home loans and 12.7% in personal loans. - Drove growth through customer experience, with 147.2% rise in net income fuelled by a jump in consumer assets, particularly home loans (+88.1%) and personal loans (+17%). - Benefited from home ownership push through tie up with Real Estate Development Fund to deliver exceptional results. - Digitising the customer experience, strengthening leadership position in the affluent segment.	- Double down on Affluent, grow the asset base and increase our number of active customers - Become a sizeable player in Mass, grow the asset base and double our active customers - Boost our returns and profitability - Be the best in client service and loyalty - Align our cost-to-income ratio with the market
Optimise our leading position in Private Banking	- Enhanced processes and customer journey.	- Protect our leading position and preserve our market share of liabilities - Double digit increase our customer base - Boost our returns and profitability - Be the best in client service and loyalty - Align our cost-to-income ratio with the market
Reinforce our continued growth of Global Markets	- Grew market leadership in 2019 as the Bank's overall investment book grew by 13.5%. - Enhanced back-office digital systems to support and enrich cross-selling and to enhance long-term partnerships.	- Sustain leading position and increase our market share of assets - Be at the forefront of innovation of new products and solutions

Measuring success

Shareholder darling

Resilience

Efficiency

Best customer experience

Best place to work

To find out about how we measure our strategic progress, turn overleaf for our Key Performance Indicators.

Risks

We manage and mitigate risks to ensure the success of our strategy.

Read more page 24 >>

Strategic Targets

Market Share

10%

ROA

2.3%

NPS

#1

Living our strategy

Modernise our Technology and IT Platforms

"The bank embarked on its modernisation journey in 2019 by heavily investing in a core banking transformation program, which aims to overhaul its complex legacy architecture and applications, unleashing the potential for digitalisation and business growth."
Thamer Yousef

Boost Digitalisation

"Digital isn't just about having the latest technology and a mobile app. It's about having the right people in place who can create and drive a digital culture with the customer always at the center of attention. I'm proud to say that BSF have all these qualities in abundance and is on track to becoming a digital first bank."
Carl Whiteside

Lead in customer experience

"Our goal is to deliver an unparalleled experience, where the customer's needs are met before they anticipate it. We are working diligently to assess our current journey and identify areas of improvement with the latest technologies afforded to the market. Our team hopes that we are associated with a seamless, innovative and joyful banking experience."
Sultan Alotaibi

Improve organisational effectiveness

"The bank is always evaluating opportunities at improving its organisational effectiveness and efficiency. This clear mandate helps employees, at all levels of our organisation, to continuously rethink our processes, our way of working, and the quality of our products and services while keeping in mind the needs and interests of the employees and customers. The bank reviewed the current Cross-Sell organisation and improved it by defining a more efficient and flexible structure. Emphasis was put on creating a new cross-selling culture and team unity, especially via specific events and training."
Saiyfe El Cosantini

Brand

"As one of Saudi Arabia's oldest banks, Banque Saudi Fransi has gone through many evolutions yet has maintained and developed a legacy of innovation, contribution to the economy and long lasting relationships. We are taking our foundational strengths and applying them as we invest in the future. This means affirming our values while innovating to engage our employees, customers and stakeholders with authentic brand experiences."
Nourah Alammary

Nurture a positive environment and culture for our people

"Our human capital is the catalyst for achieving our long-term strategy. We continue to lead with honesty and integrity while focusing on what really matters to our people."
Mohammed Alwahibi

Harmonise risk with our business aspiration

"A clear articulation of the Group risk appetite and its cascade to the business lines in 2019 are strides by the Bank towards a strong, robust, and pervasive risk management culture where every Bank employee is a risk manager."
Mutasim Mufti

Ensure successful delivery of our strategy

"The bank has begun an ambitious journey of transformation, and our purpose is to deliver on these aspirations and bring them to reality. We are driven by our values, one of which is 'Winning is fun' and accomplishing 90% of our strategic plans in 2019 has been joyful and rewarding. The biggest win has been seeing all the stakeholders come together to realise our dreams."
Ali Al-Ghamdi

Digital

Investing in digital

BSF's focus on digitisation reflects its position as a universal bank, with far-reaching investments beyond the traditional focus area of Retail Banking, into Corporate Banking, Private Banking, Global Markets, and internally for our people. This broad push supports BSF's ambition to be the bank with the leading digital offering in the Kingdom.

As part of this ambition, in 2019 the Bank made a variety of diverse investments, including:

- **Digital-friendly office spaces to establish new collaborative ways of working**
- **Online account opening and eSignature rollout to remove friction from select customer journeys**
- **Robotic Process Automation (RPA) to automate manual tasks and reduce risk**
- **Chatbots to interface with customer queries**
- **Apple Pay to enable a frictionless payment option for consumers**
- **Providing Banking as a Service (BaaS) to support new, emerging Fintech players such as Halalah Pay**
- **Exploring new business models to open new markets and segments through the exploitation of digital technology**
- **Direct equity investments into Fintech start-ups to stimulate innovation and open banking**

BSF is also investing in underlying infrastructure and enablers to support further digitisation across systems, people and governance. The focused investment in building the core banking system started in 2019 and benefits are expected to be realized from 2020 onwards. This basis will enable more agile and nimble digital services.

From a people perspective, the Bank has been actively recruiting new skills and talent from within the Kingdom and internationally in the areas of data science, engineering, UI/UX and digital strategy. The broad array of digital-focused activity across the Bank is managed and governed through a dedicated management forum.

> **"This broad push supports BSF's ambition to be the bank with the leading digital offering in the Kingdom."**

Key Performance Indicators

Measuring our success

We've defined our strategic drivers around consistently delivering shareholder value, resilience, efficiency, outstanding customer experience, and gold standard workplace for our employees. We will track and report them to our shareholders.

Strategic driver – Shareholder darling KPI #1

Total shareholder return (TSR)

Calculated as the growth in share price plus dividends paid to our shareholders during the year.

26.43%

(2018: 14.16%)

Strategic Links

Enablers

A B C D E F G H

Return of average equity (ROAE)

Calculated as the profit attributable to our equity shareholders as a percentage of average shareholder's equity. To increase ROAE, we focus on growing our business where risk-adjusted returns are maximised and capital is efficiently deployed.

11.22%

(2018: 10.46%)

Strategic Links

Enablers

A B C D E F G H

Strategic driver – Resilience KPI #2

Basic earning per share (EPS)

Net of our cost of risk, we will deliver consistent bottom line income and returns for our shareholders, with no surprises.

2.60

(2018: 1.17)

Strategic Links

Enablers

A B C D E F G H

Dividend per share (DPS)

DPS is the sum of declared dividends issued by a company for every ordinary share outstanding. The figure is calculated by dividing the total dividends paid out by a business, including interim dividends, over a period of time by the number of outstanding ordinary shares issued.

2.0

(2018: 1.70)

Strategic Links

Enablers

A B C D E F G H

Strategic driver – Efficiency KPI #3

Cost-to-income Ratio

Calculated by dividing our operating expenses by our operating income. The more we re-engineer our process, focus on digital, optimise our costs and increase our top line, the better this will become.

33.3%

(2018: 33.7%)

Strategic Links

Enablers

A B C D E F G H

Strategic driver – Best Customer Experience KPI #4

Net Promoter Score (NPS)

NPS is based on the likelihood that customers will recommend BSF to family or a friend. NPS is calculated as the percentage of customers who are promoters, rating BSF a 9 or a 10 on a 0 to 10 point scale, minus the percentage who are detractors, rating us a 6 or lower.

In 2019, BSF created a baseline NPS measurement in order to track customer satisfaction moving forward and ensure that the bank achieves its mission to be the most experience focused bank in the region.

Going forward, we will report the delta from the baseline NPS measurement.

Strategic Links

Enablers

A B C D E F G H

Strategic driver – Best place to work KPI #5

Employee Net Promoter Score (ENPS)

ENPS is based on the likelihood that employees will recommend BSF to family or friends as a place to work. ENPS is calculated as the percentage of employees who are promoters, rating BSF a 9 or a 10 on a 0 to 10 point scale, minus the percentage who are detractors, rating us 6 or lower.

In 2018, BSF created a baseline ENPS measurement in order to track employee satisfaction moving forward and ensure that the bank remains a great place to work.

The delta from the baseline ENPS measurement:

27.2

Strategic Links

Enablers

A B C D E F G H

Principal Risks

Strong risk management

BSF makes it a priority to protect its reputation, stakeholders and assets by effectively preparing for and mitigating significant risks across our organisation. We adopt contemporary risk management principles issued by the Basel Committee for Banking Supervision (BCBS) of Bank of International Settlements (BIS) and follow all applicable regulations issued by Saudi Arabian Monetary Authority (SAMA).

Our Risk Management Framework was established to ensure strong risk management awareness and culture, and to inculcate these practices in day-to-day business activities and responsibilities. It provides the foundation and organisational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management throughout the organisation.

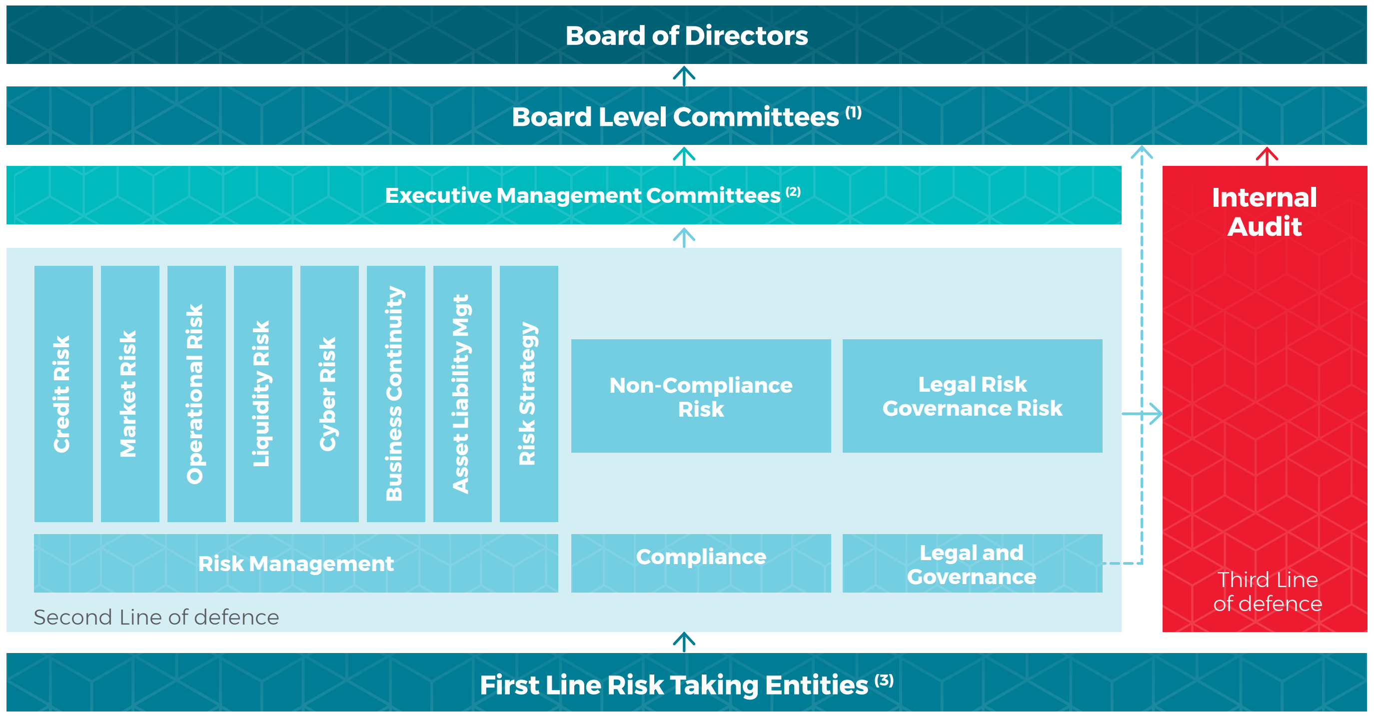
A range of structured enablers for risk management, using clearly defined risk language and processes, integrated approach and lifecycles, and internal control systems within the organisation, further augment this.

Risk governance

BSF's approach is to identify, analyse and respond appropriately to all risks. The approved appetites and tolerances determine the risk responses selected for various types of risk. These will evolve over time according to the specific business objectives, including strategic, operational and asset protection.

The effectiveness of risk management and control measures is regularly reported to and acted upon by the Board. In addition, periodic independent review on the effectiveness will be conducted. The Risk Governance Framework includes a strong risk culture, adequately developed risk appetite framework articulated through the Risk Appetite Statement, and well-defined responsibilities for risk management and control functions, under the three lines of defence model.

Risk Management at BSF is governed as follows:



BSF's Board of Directors has ultimate responsibility for the Bank's business, strategy and financial soundness, as well as its management and compliance obligations.

The Risk Committee of the Board of Directors is responsible for advising the Board on the Bank's overall current and future risk appetite, overseeing senior management's implementation of the Risk Appetite Statement, reporting on the state of risk culture, interacting with the Chief Risk Officer (CRO), and overseeing the adequate functioning of the risk management function.

Meanwhile, under the direction of the Board, the Managing Director and senior management carry out and manage the Bank's activities in a manner consistent with the business strategy, risk appetite, incentive compensation and other policies approved by the Board.

Notes:

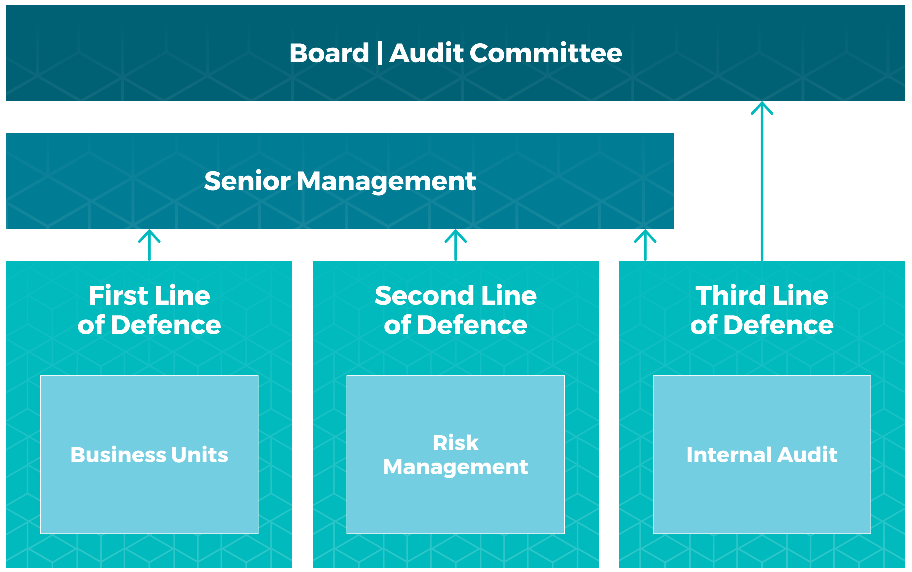
1. Board Level Committees – Executive Committee, Board Risk Management Committee, Audit Committee, Nomination & Remuneration Committee and Strategy Committee
2. Executive Management Committees – Asset Liability, Business Continuity, Classification & Impairment, Credit, Fraud Control Liquidity, Information Security Governance, Market Risk, Operational Risk, Treasury Investment
3. First Line – Business Lines (Institutional Banking, Retail Banking, Global Markets) & Support Functions (Finance, Operations, Information Systems, Human Resources)

Three lines of defence

The Board and senior management have the ultimate responsibility for the governance of all risk-taking activities of the Bank. As the first line of defence, the business units have ownership, responsibility and accountability for assessing, controlling and mitigating risks.

As the second line of defence, the risk management function (and also Compliance & Legal) facilitates and monitors the implementation of effective risk management practices by business and operational management, and assists the risk owners in reporting appropriate risk-related information to the relevant stakeholders. The risk management process includes Risk Identification/Recognition, Risk Assessment (Validation, Measurement and Prioritisation), Risk Monitoring and Risk Mitigation (Controls).

As the third line of defence, the internal audit function, through a risk-based audit approach, provides independent assurance to the Board and senior management on the effectiveness of the risk management process in the Bank, in terms of assessment and management of its risks, including the manner in which the first and second lines of defence operate.



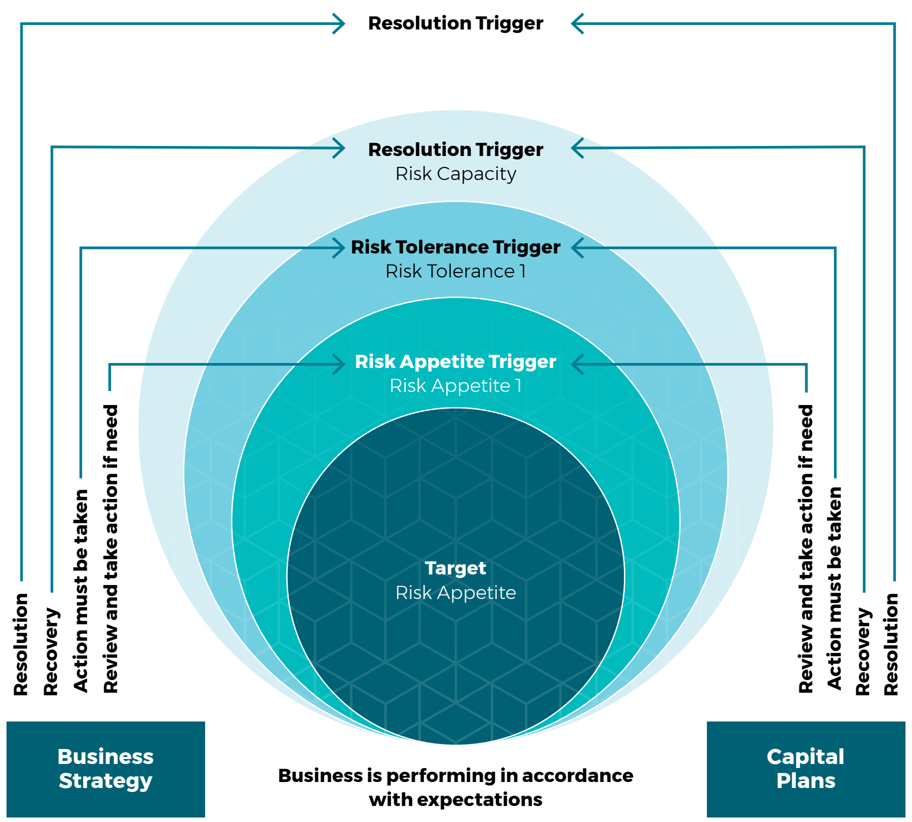
Principal Risks continued

Risk strategy & appetite
BSF has established a dedicated Risk Strategy Department under the Risk Management Group (RMG), which is responsible for aggregating and developing an enterprise-wide perspective on risks for the purpose of setting risk appetite (with Board approval), risk tolerance for expected losses, and capital and liquidity adequacy, all in the context of the Bank's business strategy and plans (including under stress conditions).

The Risk Appetite Framework sets the governance and main considerations in identifying and setting an appetite for risk tolerance. Principal risks are identified along with metrics for measurement.

The Risk Appetite Statement is developed and refreshed annually, after discussions among business lines and risk management, taking into account the business strategy and budget plan.

The Board of Directors approves the risk appetite for the year at the beginning of the year. The approved risk appetite for the year is cascaded to the different business units, with risk-taking activity and risk levels measured regularly and reported to the Board Risk Committee at quarterly intervals, or earlier, if thresholds are breached.



Achievements of 2019
2019 saw the revision of BSF's risk appetite with the objective of achieving a clearer articulation of the type and quantum of risk the Bank is willing to take in order to achieve its strategic objectives. Its cascade to the business lines ensures that this translates into transmission of risk strategies in terms of lending guidelines, including exposures' credit quality, industry exposures, maturity, concentration etc. and ensures cascading of responsibility for managing risks to relevant business line and profit centres.

The risk management framework is supported by a variety of tools that are used to manage enterprise-wide risks. These include policies and limits, risk identification, risk measurement models, monitoring and reporting, and forward looking exercises (e.g. stress testing and capital planning). As part of its endeavour to provide effective risk management, the Bank continues to make significant investment in each of these areas.

Policies
2019 saw significant updates to the policies/ governance charters across risk areas and dimensions, ensuring alignment with global best practices and regulatory requirements. A few notable mentions include Operational Risk & Loss Data Policies, Corporate Cyber Security Policy, Model Governance and Credit Committee Charter.

Risk identification
The Bank has setup a separate portfolio management function to review portfolio hotspots and ensure early identification of risks. Within the ambit of operational risk, an Enterprise Incident Management (EIM) and a new Bank-wide control testing mechanism was set up.

Risk measurement
Significant analytical improvements have been undertaken in the Bank's corporate rating model landscape and macro-economic/term structure risk estimation methodologies, in collaboration with Moody's Analytical Services. The updated models are expected to go on-stream in 2020 after ensuring appropriate governance.

Monitoring
Process improvements and reorganisation in the sphere of credit control and monitoring has ensured reduced turnaround time and greater efficiency.

Technology, information and cybersecurity risks continue to impact financial institutions and other businesses across the globe, with the threats increasing in both volume and sophistication. Recognising its importance, the Bank has invested in a unique Cybersecurity Development Programme that develops cyber skillset amongst local talent and promotes BSF in the local banking sector for cybersecurity. The Bank's efforts have led to the achievement of continuous compliance status against ISO/IEC 27001, a globally recognised best-practice framework for addressing the entire range of security risks.

Objectives and initiatives in 2020
To harmonise risk with BSF's future business aspirations and strategy, in the context of rapidly evolving regulatory requirements, global economic environment and initiatives prompted by Saudi Vision 2030, there is a heightened preparedness within the RMG to play the role of a proactive, sophisticated enabler. This focuses on a more accurate lifecycle risk measurement of borrowers, active identification and management of problem debt and recovery, more accurate counter-cyclical risk measurement, provisioning and pricing and enabling data infrastructure/ processes to support these within the scope of quality regulatory practices and cross-functionality.

As part of the ongoing effort to achieve these objectives, BSF's RMG has undertaken/planned a number of initiatives for 2020. A few key initiatives are worth mentioning:

Significant analytical improvements have been achieved the past year in borrower and rating landscape collaborating with Moody's Analytical Services. As this is implemented in the Bank's risk infrastructure, it will have many significant flow-through improvements, bringing sophisticated capabilities in provisioning, enterprise-wide stress testing, and eventually lifecycle-based risk adjusted pricing to the business lines.

Development and process implementation of Key Performance Indicators (KPIs) to enable early actions in management of problem debt, resulting in proactive reduction of debt and improved monitoring of corporate credit.

RMG is well positioned to implement parallel run requirements for Basel 4 ("Basel IV: Finalising post-crisis reforms") requirements which come into effect in Saudi Arabia in 2022, in the areas of credit risk and Credit Valuation Adjustment (CVA).

> **"There is a heightened preparedness within the RMG to play the role of a proactive, sophisticated enabler."**

Business Review

Institutional Banking Group

The Institutional Banking Group continued to deliver against the Bank's LEAP strategy, achieving strong results across core business areas, and completing dozens of strategic programmes and initiatives during a successful year of solid growth.

A year of continued growth and progress, 2019 was filled with important strategic and operational milestones. Highlights included the continued implementation of the digital agenda in areas such as transforming Global Transaction Services and updating the FransiGlobal web portal, which serves corporate customers.

Complementing these digital enhancements, the Group intensified its client coverage with a range of customer-focused initiatives, including CRM-based processes to facilitate regular client calls and monitor turnaround-times on service requests.

Solidifying its corporate operations and structure following its 2018 consolidation, the Institutional Banking Group achieved significant efficiencies, cost savings and synergies. This trend will continue, particularly in areas such as cross selling and supply chain enhancements.

The Group's key role in the Saudi Aramco IPO transpired with perfect orchestration among business lines, providing a seamless experience for corporates and high-net-worth individuals.

These operational and customer-focused results were accomplished despite a macro environment that, albeit an improvement on 2018, still provided a constrained background for the Group's operations. The Bank and broader economy continue to benefit from clear government leadership and a commitment to creating a strong business environment, including through giga-projects.

The Institutional Banking Group is therefore ideally positioned to provide not only financial advisory and structuring but also the full range of corporate and commercial banking services in support of these projects, driving growth by serving our government, corporate and high-net worth clients with superior products and services in the years ahead.

Financial results reflecting strategic progress

For the year, Institutional Banking Group's overall gross revenue stood at SAR 3.43 billion, a decrease of 0.7 percent from SAR 3.45 billion in 2018 mainly due to the bank's prudence on asset quality and pricing. Net income rose to SAR 1.83 billion, up by 6.3% percent from SAR 1.73 billion in 2018.

Corporate Banking Group

Corporate Banking is one of the largest providers of corporate banking services in the Kingdom. With more than 3,500 customers, Corporate Banking has a relationship-driven focus on serving all its customers' needs. These customers include a commanding share of Saudi Arabia's leading companies. The Group also serves locally based micro and small and medium sized enterprises. A wide range of products also serve its major international customers who do business in the Kingdom.

Customer focus driving continued growth

Across Corporate Banking, the organisation remained focused on delivering against the Bank's LEAP strategy to maintain its leadership in corporate banking. Reflecting this, the business maintained a strong pipeline of structured finance transactions, despite a difficult market. As well, the ongoing customer segmentation strategy yielded significant results, most notably strong performances regarding the Saudi Aramco IPO.

For the year, revenue after liquidity costs stood at SAR 3.06 billion, a decrease of 1 percent from SAR 3.09 billion in 2018, mainly due to the bank's prudence on asset quality and pricing.

The Structured Finance team continued to remain a leader in providing structured solutions to corporate and institutional customers in the Kingdom. The business was not only appointed financial advisor by key clients for structuring limited recourse financing for large infrastructure and petrochemicals projects, but also acted as mandated lead arranger on several landmark transactions for key Saudi and regional corporates.

In support of Saudi Vision 2030, the Group launched the Vision Realisation Program, providing a one-stop-shop to support the Government Vision Realisation Offices and Vision Realisation Programs. This will ensure the Bank captures its 'share of wallet' from banking services and products that will support ongoing public-private partnerships and privatisation initiatives.

Building on its momentum in 2018, the Small and Medium Enterprises (MSME) business continued to deliver strong results, most notably by achieving a 172% increase in guaranteed facilities provided as part of the government's SMEs loan guarantee programme, Kafalah. As well, MSME maximised the opportunities created by signing agreements with the government's SME authority Monsha'at. The MSME business will support Monsha'at's SME funding platform and financial awareness programme, and also will provide SMEs with financial advisory, training and representation when dealing with business prospects.

Driving improved customer experience in 2020

In the coming year, Corporate Banking will continue to be a strategic partner to our clients, providing enhanced cash management and B2B solutions to create value for existing clients and attract new business. We will also launch our new Customer Experience Programme designed to deliver improved overall customer experience, while focusing on platform integration and cross selling with an enhanced digital offering, ultimately driving revenue growth to reach our Return on Assets targets.

Private Banking Group

Banque Saudi Fransi's Private Banking Group is one of the largest providers of tailored financial planning, portfolio and wealth management and investment advisory solutions in Saudi Arabia. It has achieved this position by helping ultra-high-net-worth, individuals meet short and long-term investment goals, by ensuring symmetry between income and capital growth in a manner that helps clients manage wealth for today and for future generations.

Enhancing processes and the customer journey

In its first full year as an independent Group, following the 2018 internal merger of Wealth Management and High-Net-Worth teams, Private Banking focused on enhancing its processes and systems. Steps taken included bolstering both internal operational performance and the external customer experience. During the year, the Private Banking dashboard was upgraded with a newly defined set of key performance indicators in the areas of Customers, Financial, Cross Sell and Internal Performance.

Critically, innovative ways were developed during 2019 to present selected customers with an exceptional and seamless transaction journey, while also improving Group operating efficiency and controls. More broadly, the business took steps to define its value proposition over the short and medium term, and to launch a Value Proposition Governance Forum to provide a mechanism to continually enhance the value offering to customers and strengthen market differentiation.

Business Review continued

Institutional Banking Group
continued

Driving performance and service in 2020
Building on the successful enhancement of internal systems and external customer services in 2019, the Group enters 2020 in a strong position to build on its long-standing position as a leader in the private banking space. With a focus on accelerating growth in both assets under management and return on assets, the business will continue to re-segment portfolios to ensure customers receive the exceptional levels of service they deserve. From these steps, the Group anticipates it will achieve higher customer retention rates and a lower cost-to-income ratio.

Further development of internal systems includes implementing a customer relationships management solution that will allow for data-driven decision making and a better understanding of customer profiles. It also will unlock and identify the full potential of cross selling opportunities, while also improving customer engagement and servicing activities.

Further deepening the customer experience, the business will implement several value-added features over the coming year, including customer access to our 'Insights' publication, launching the 'Priceless' credit card, and improving service turnaround times.

Islamic Banking Division
The Islamic Banking Division (IBD) at Banque Saudi Fransi is an independently-managed business that provides convenient and customer focused Shari'ah-compliant financial solutions across a range of banking channels.

IBD's mission is to create awareness and contribute to the development and enhancement of the Islamic business environment by promoting best practices based on the Shari'ah principles. It seeks to achieve a high standard of credibility, trust, transparency and excellence, while providing support to the Bank's business lines and subsidiaries related to the execution of Islamic banking activities.

'Think Big, Act Fast'
With a commitment to 'thinking big and acting fast', IBD accomplished a tremendous amount during 2019, reflecting its role as an active contributor to the development of the Islamic banking sector in the Kingdom and to Saudi Vision 2030's goal of fostering innovation in the sector. The Division also supported efforts by the Saudi Arabian Monetary Authority (SAMA) to promote the sector in field such as Islamic Fintech.

For the year, total revenues increased by 3.5% percent to SAR 3.04 billion from SAR 2.94 billion in 2018, while net income rose by 3.6% percent to SAR 2.96 billion from SAR 2.86 billion for the prior year.

These results were supported by IBD product development and new services for customers across the Bank's business lines. This included working with Corporate Banking to integrate the Loans and Deposits portal with external commodity brokers to enable the automated execution of Islamic commodity transactions 24 hours a day, seven days a week. Automation also was extended to Corporate Banking customers, who now receive text message notifications for Tawarruq finance and Murabaha investment transactions, rather than paper offer and acceptance letters.

The Division also worked extensively with business lines across the Bank to develop Shari'ah-compliant products and solutions, including Shari'ah Ruling for Global Markets products. IBD also worked with Corporate Banking to develop a Tawarruq Agreement Wakalah Appendix. With Retail Banking, IBD contributed to the development of three new savings products and created a new tool to promote savings for the youth, called 'Dreamers Account', which has been developed in collaboration with summer trainees.

Internally, IBD improved the uses of the Penalty Fund by implementing a 'One Family program' to support employees facing difficult circumstances, a step that also enhanced employee loyalty. In support of workforce capacity building, IBD launched the 'Alqudwah Alhasanah Scholars' training within Banque Saudi Fransi Academy to qualify new Shari'ah Board Members.

During the year, IBD also launched the first edition of its newsletter, and became an Observer Member of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

As part of its commitment to the community, IBD completed a range of corporate social responsibility initiatives, such as offering financial support to Islamic finance research efforts and providing funds to various charitable organisations.

Expanding Islamic offerings in 2020
The Division has an ambitious agenda for 2020 to build on the positive momentum and achievements registered in 2019. This includes creating a Shari'ah Governance Unit to enhance and monitor the execution of the Division's products, and using automation to create an Islamic Call Account (Mudaraba).

Over the coming year, the Division will work to develop an Islamic overdraft product, a Tawarruq financing option for share purchases in collaboration with Saudi Fransi Capital, an entire suite of Islamic products and services for Saudi Fransi Agency, and new Islamic products for Saudi Fransi Leasing.

In 2020, the Division will also continue to work with other Bank business lines, including Retail Banking, Global Markets and Corporate Banking, to expand the variety of Islamic products they offer. Islamic Banking will also build on accomplishments in 2019 by integrating Retail Banking's ASAT system for loans and deposits with the brokers portal in order to digitise the commodity trading process, in alignment with the new core banking system.

Global Transactions Solutions
GTS Group Solutions (GTS) provides a range of services and solutions to connect corporate clients with local and international counterparties, services and ecosystems. These include a range of trade finance solutions, including Documentary Letters of Credit and Guarantees; correspondent banking activities for trade and cash management, including credit line management, trade finance facilities and maintenance of existing correspondent banking relationships; and a range of domestic and international payment and collection products.

A new structure for a new era
The GTS Group was established in December 2019, completing the consolidation of three existing Bank businesses: Global Transactions Business, Financial Institutions and Trade Finance.

The new Group was created to reflect global best practice by combining related operations in one organisation to achieve efficiencies and synergies. The new organisation delivers operational benefits to the Bank, as well as product and service improvements to customers that ultimately will increase Bank revenue.

During 2019, the Global Transactions Business continued to execute against its open architecture objectives designed to support the continued scaling up of its digital platforms, greater cross selling, better management of costs, and growth in POS operations.

Enhancing customer experience in 2020
Looking ahead to 2020 as a unified organisation, the Group will focus on automation as a top priority, with digitisation serving to drive an improved customer experience, cross-selling opportunities and operational improvements.

As well, while traditional trade products will continue to be important, the Trade Finance team will look to address future client requirements in areas such as open account trade and more supply chain finance and factoring. Reflecting the commitment to digitisation, Trade Finance will continue to develop a market-leading electronic platform. The Financial Institutions team will also continue to establish new correspondent banking relationships.

Institutional Banking Group
continued

Leading the way to London: The 2019 BSF Leaders Forum

Held over two days in London, the BSF Leaders Forum provided an opportunity for senior business leaders, decision makers and other thought leaders from Saudi Arabia, the United Kingdom and beyond to discuss the theme: "When change is the only constant".

More than 250 people, including 188 Banque Saudi Fransi clients and senior Saudi government officials attended the event, which focused on global socio-economic megatrends and their drivers.

The successful event strengthened the Bank's existing client relationships and initiated new prospects by creating a vibrant community of market participants and thought leaders who were able
to share knowledge and best practices regarding the financial services industry.

Hosting the event in London provided an opportunity to engage a different audience, and to demonstrate the Bank's role as a leading Saudi company and major player in the Kingdom's institutional banking segment.

Through 'fireside chats' and panel discussions, the Forum fostered high-quality conversations that examined the implications of these issues on the Saudi government, private sector, society and economy.

Themes ranged from the increasing economic influence of China and Asia to shifting demographics and labour-market realities, and from the impact of technology and climate change on society and markets to changing values.

The two-day event was inaugurated by Mazin Al Rumaih, the Bank's Chairman, and featured participation from senior executives from the Capital Markets Authority, the General Organization for Social Insurance, the G20-2020 Saudi Secretariat, Standard Chartered, J.P. Morgan, Bain & Company, MSCI, Saudi Investment Recycling Company, Collaborative Holdings, STV and GEMS Education.mproving service turnaround times.

Business Review continued

Retail Banking Group

Increase in home loans

88%

The Retail Banking Group operates a wide network of branches, ATMs, digital platforms and mobile apps to deliver an exemplary customer experience.

It offers products and services to meet the everyday banking needs at each stage of life – whether managing a household, buying a house, preparing for education, raising a family or planning for retirement. The Group also provides an exclusive level of service to affluent banking customers through dedicated relationship managers as part of its affluent banking offering.

Driving growth through customer experience

During 2019, the Retail Banking Group delivered another outstanding performance, reflected in a 147.2 percent rise in net income that was fuelled by a tremendous jump in consumer assets, particularly home loans and personal loans. At the same time, the Group saw significantly lower impairment charges, reflecting the quality of its consumer asset portfolio. These results were driven by a superior sales effort and a huge increase in sales productivity.

The business continued to improve the customer experience, with enhancements in areas such as digital and mobile banking, and expansion of the JANA loyalty programme. The results were demonstrated in promising net promoter scores (NPS) and markedly higher operating revenue and net income.

A year of exceptional performance

Consumer asset growth was led by home loans, which skyrocketed by 88.1 percent, well above the broader market increase of 33 percent, from SAR 3.69 billion in 2018 to SAR 6.94 billion in 2019. Personal loans also performed well, rising 17 percent from SAR 6.82 billion in 2018 to SAR 7.97 billion in 2019, reflecting the power of the Group's offerings as the overall market shrunk by 1.4 percent. Overall, the gross outstanding balance of consumer assets rose by 39.8 percent, from SAR 11.04 billion in 2018 to SAR 15.44 billion in 2019.

This success was driven by strong sales performance that saw home loans jump by more than 131 percent, from SAR 1.64 billion in 2018 to SAR 3.8 billion in 2019, while personal loan sales increased by 38.6 percent, or more than SAR 1 billion, from SAR 2.93 billion in 2018 to SAR 4.07 billion in 2019. As well, the Group's share of personal loans increased to 2.41 percent of the market, a 15.9 percent increase from its share in the year-ago period. New credit cardholders also grew by 75 percent.

As a result, total operating revenue for the Group grew by 10.3 percent, from SAR 1.25 billion in 2018 to SAR 1.38 billion in 2019, driven largely by a 12.9 percent increase in interest income, from SAR 996 million in 2018 to SAR 1.12 billion in 2019. Meanwhile, operating expenses improved marginally, resulting in net operating income of SAR 451 million in 2019, up 46.5 percent from SAR 308 million in 2018.

With impairment charges down by 27.4 percent to SAR 129 million in 2019, from SAR 178 million in 2018, net income rose 147.2 percent to SAR 322 million in 2019, from SAR 130 million in 2018.

Surpassing sales targets

The highlight of the Group's performance during 2019 was the strong success in home and personal loan growth, reflected in home loan sales figures achieving double what was targeted for the year. The team benefitted from new strategic partnerships with government entities, including close coordination with both the Ministry of Housing and the Real Estate Development Fund.

Also contributing to this loan growth was the Group's ability to offer a wider suite of home loan products, enhanced processes, and a better customer experience that leveraged the Bank's growing technology platforms. Two additional factors supporting growth were new partnerships with select off-plan developers to offer financing, and working with the Saudi Refinance Company.

As a result, SIMAH, the Saudi credit agency, reported that for the entire Saudi banking sector, the Group delivered the largest quarter-on-quarter growth in 'active outstanding balances' in both the second and third quarters of 2019.

The high sales productivity per full-time employee that supported this loan growth was enabled by several factors, including a better, more diversified product offering, a more dynamic pricing mechanism, transparency regarding key performance indicators, and a sales structure that provided balance between direct sales and field sales channels.

Driving enhanced sales productivity across both loan and card sales during the year, direct sales agents delivered huge gains, with productivity growing by 49.6 percent, while branch sales staff also improved sales productivity by 19 percent.

Digitising the customer experience

Reflecting its LEAP priorities, the Group was extremely successful in acquiring more retail clients to widen the Bank's customer base, while also strengthening its leadership position in the affluent segment. Two key LEAP priorities – leading in customer experience and boosting digitisation – were demonstrated during the Saudi Aramco IPO, when Elite Banking customers were able to seamlessly use the Group's digital channels to take part in the IPO, all without having to visit a branch. The Group also introduced Musaid, an online virtual assistant chatbot, to improve the overall digital customer experience.

As part of its online platform expansion, the Group leveraged the Saudi Arabian Monetary Authority (SAMA) sandboxing regulations to develop an innovative online account registration process that offers instant account funding, issuance of a virtual debit cards, and immediate synching with Apple Pay to allow customers the ability to immediately use their accounts. Online account registration now accounts for 38 percent of all new retail account openings.

Supporting the customer experience offline, the Group expanded the benefits of the JANA loyalty programme, including by bringing on more partners, including Alfursan, VOX Cinemas, Interval CrossFit, Bunyan Charity, Ekhaa Charitable Association, the Furijat initiative, Landmark Group, and Nespresso.

By including two charitable organisations in the JANA programme, the Group supports its corporate social responsibility by helping customers make contributions to charities by allowing them to donate their earned loyalty points.

As part of the work to enhance the customer experience, NPS surveys were introduced to all branches and at the customer contact centre. The promising initial scores reflected the Group's hard work in the customer experience area.

By the end of the year, the Group had successfully completed 14 strategic initiatives covering approximately 250 activities, including several of those mentioned above, such as sales productivity, online account registration and expanding NPS into branches and call centres.

Business Review continued

Retail Banking Group
continued

Building on the momentum for further growth in 2020
In 2020, the Group is working to deliver another year of outstanding business results and sales productivity. Driving this growth will be a number of efforts – from expanding digital platforms to new product launches to even better customer experience.

The Group continue to shift the sales journey to digital channels in the coming year, focusing on products such as credit cards and personal loans, to complement the existing online onboarding process. As well, in transitioning to a 'mobile first' approach, the Group will revamp the mobile banking platform (Fransi Mobile) to ensure the right user experience.

Alongside an expanded digital footprint, the Group will significantly add to its consumer asset products, including new credit card and home loan products, and offer product bundles designed to make the customer's life easier.

The Group will look to extend the successful growth of JANA to capture a greater share of the retail market and increase engagement. Another priority will be to create new routes to market for the wider Banque Saudi Fransi portfolio, and, similarly, to increase the focus among Retail employees on cross selling to increase the Group's 'share of wallet' among its customers.

As the Group continues to prioritise its NPS, with an ambition to become top ranked in the Saudi market, Retail will further extend NPS to new contact points, including the mobile app (Fransi Mobile) and the Retail Banking website.

A growing portfolio of home finance products
In 2019, we launched several new home finance products and programmes to serve our customers, including:

- Military Programme for self-construction with REDF/MOH
- Tarmeem Programme
- Off-plan product
- Land & Loan Programme
- MOE employees Programme
- Moyassar Programme
- Mortgage Guarantees Programme

Retail Banking operating revenue (SAR)
1.38b

Global Markets Group

A leader in its sector in Saudi Arabia, Banque Saudi Fransi's Global Markets Group provides clients with foreign exchange, interest rate and commodities hedging, as well as other derivatives and structured products.

The Group serves as a leading market maker in SAR derivatives products and money market instruments. The business also facilitates client trade requirements, and provides market advisory, investment and other tailored solutions. It also manages the bank's liquidity, interest rate, and foreign exchange risks.

Growth and market leadership in 2019
Within a subdued market environment dominated by constrained corporate growth, the Global Markets Group focused on expanding its investment book while taking a conservative investment approach and a selective lending posture. Moreover, the Group focused on optimising its balance sheet within available money market resources. With support of Global Markets, the Bank achieved a 6% percent fall in the ratio of time deposits to total deposits and an increase in net interest margin, as the Bank's overall investment book grew by 11%.

The Group also maintained its position as a leading market maker in Saudi Riyal interest rate derivatives, and structured solutions. The business expanded its capital markets activities by offering clients new creative products. With a focus on delivering the best customer experience in the market, the Group continued to roll out digital solutions for smoother, more efficient interactions for clients, including an upgrade to the Bank's treasury system. Moreover, the Group is enhancing its digital systems to support and enrich cross selling efforts and to help enhance long-term partnerships.

In alignment with the Bank's LEAP strategy, the Group made progress in streamlining the organisational structure and reinforcing Bank values, including a focus on the customer, thinking big and acting quickly, and cultivating a culture of winning.

For the year, total GMG revenues decreased by 2.5% to SAR 1,634 million. Total net income fell by SAR 8 million, as a result of decrease in non-interest revenue, while operating expenses also dropped by 3.3%.

Diversification and innovation in 2020
In 2020, the Group will continue to grow its asset book and build on its 2019 successes in treasury operations while looking to enter new customer segments.

The business will further leverage on technology enhancements, with projects such as automating its foreign exchange platform to enable straight-through processing. Front-office systems will also be upgraded, while customers will be introduced to new innovations in structured products. Underlying all these steps will remain the Group's commitment to keeping close to clients to understand and meet their diverse and evolving requirements.

Business Review continued

Saudi Fransi Capital

Saudi Fransi Capital is a leader in investment banking, wealth and asset management, and securities brokerage in the Kingdom of Saudi Arabia. Our full range of investment solutions and advisory services cater to clientele including local and global financial institutions, corporations, government entities and individual investors.

Leading the field
In 2019, key milestones contributing to Vision 2030 drove market conditions, such as the largest IPO in history (ARAMCO) and the inclusion of the Saudi Stock Exchange (Tadawul) to global indices. In a similar way, Saudi Fransi Capital continued its solid growth trajectory, boosted by successes across the businesses. These included Investment Banking winning four important mandates; continued product diversification by Asset Management; and enhanced holistic electronic trading solutions from the Securities Brokerage team. Notably, the business continued to grow assets under management.

For the year, the Banque Saudi Fransi subsidiary reported operating revenue of SAR 293.68 million, up 6 percent from SAR 277.97 in 2018, and net income before Zakat and income tax of SAR 113.46 million, up 2 percent from SAR 111.69 in 2018. Total balance sheet assets were SAR 2.95 billion in 2019, up 14 percent from SAR 2.58 billion a year earlier.

Investment banking
A highlight of the year was the extremely successful role of Investment Banking as a joint book runner and Underwriter on the SAR 96 billion initial public offering (IPO) of the Saudi Arabian Oil Company (Aramco). Investment Banking was one of the largest contributors among 24 banks tasked with receiving orders for the institutional tranche of the IPO. The business also led the IPO of Al-Moammar Information Systems, which raised SAR 216 million, becoming the first Information Technology firm to list shares on the Saudi stock market.

The two other major transactions reflected the renewed focus on mergers and acquisitions (M&A) this year. These high-profile M&A transactions included advising the Saudi Investment Recycling Company (SIRC), a wholly owned subsidiary of the Public Investment Fund (PIF), on its acquisition of Global Environmental Management Services Company (GEMS) in Saudi Arabia. The second transaction involved providing advisory service to Aramco and Total, which sought to acquire a domestic fuel retailer. The Investment Banking business conducted a full screening of the fuel retailing market, leading the identification and selection of Sahel as the target company. The acquisition was closed by mid-year.

Reflecting the calibre of this work, Banker ME named Saudi Fransi Capital the "Best Investment Bank" in the Middle East for 2019.

Asset management
Asset Management continued to diversify its product offerings by providing leading global investment solutions to our clients. In 2019, new mandates were launched in US multifamily real estate, European midmarket private equity and direct investments in disruptive technologies. Exemplifying the business's strong performance, the successful exit of the US logistics property fund generated an internal rate of return of close to 16 percent.

More generally, both managed funds and mandates in local and regional equities continued to deliver stellar returns – with the majority of mandates outperforming benchmarks by healthy margins.

Securities brokerage
The Securities Brokerage team maintained its leading market share in the local stock market and continued to focus on growing its institutional brokerage activities and offerings for these customers. As a result, 2019 saw a substantial increase in the business's qualified foreign investor (QFI) client base, building on the ongoing inflow of foreign capital in the 2019 inclusion in the MSCI and the FTSE Russell emerging market indices.

A key enhancement in 2019 was the successful delivery of an algorithmic trading capability on the institutional investor's platform. It is also working closely with Tadawul to launch additional derivative products gradually, as part of its strategy to diversify its product offering and provide more investment opportunities for market participants.

Opportunities in 2020
The improving market and economic conditions and easing of the liquidity situation in the Kingdom in 2020 will allow Investment Banking to continue its momentum with new opportunities in equity capital markets. Adding to this optimism is a substantial pipeline of transactions developed in 2019 and prior years that is expected to be monetised in 2020. M&A activity, too, is expected to maintain growth, spurred on by an active investor base and attractive valuations.

The Asset Management business will continue to expand its alternative asset class offerings, including public market absolute return strategies, income generating real estate investments, direct lending vehicles and selective private equity exposures.

The Securities Brokerage business will extend its leadership by continuing to maintain a prominent position in the overall platform experience and technology integration for its institutional as well as its individual clients.

Looking ahead to 2020, Saudi Fransi Capital is committed to building on its historic growth and its leadership position in the market by winning new landmark mandates and building its share of overall mandates. It will also expand its product offerings and distribution reach, grow assets under management, increase its share of local and global securities brokerage, and maintain a client focus. This client focus includes providing a one-stop shop for a wealth of solutions, so investors reach their goals, now and in the future.

Business Review continued

Saudi Fransi Leasing

Saudi Fransi Leasing, licensed by the Saudi Arabian Monetary Authority, is a leading provider of lease financing services in the Kingdom.

The company provides Shari'ah-compliant solutions to government, semi-government, individuals, and small and medium enterprises (SMEs) in sectors such as trade (wholesale and retail), construction, manufacturing, transportation, communication, utilities and health services. Its core customers are in the auto and heavy-machinery lease financing sectors.

Financing luxury

Saudi Fransi Leasing (SFL) delivered a strong 2019, with new finance bookings soaring by 68 percent compared to 2018. This growth was enabled by a number of developments, including an increase in dealer coverage and increasingly serving remote regions of the Kingdom. The business also made a concerted push to attract high-income-generating customers and to finance luxury and other high-value vehicles. As a result, SFL has increasingly become the preferred finance company for dealers in Saudi Arabia that focus on luxury vehicle brands.

As of 31 December 2019, the gross portfolio value of business was SAR 2.55 billion, a 5 percent increase in value from the SAR 2.43 billion a year earlier. This was boosted in part by huge jump in new finance bookings to SAR 1.06 billion in 2019, from SAR 632 million, in 2018. Operating income was SAR 81.8 million, up 7 percent from the SAR 76.3 million in 2018. While net income was SAR 87.23 million, up 3% from the SAR 84.55 million in the year earlier period.

Expanding solutions and customer base in 2020

Expanding financing solution products and continuing to improve the customer journey are top priorities for the business in 2020. With an understanding of evolving customer requirements, particularly in the luxury and high-value segments, SFL will continue to roll-out innovative financing products customised to the unique needs of the Saudi market.

Digitisation and automation of processes also will be a top priority, not only to further enhance the customer experience, but also to help facilitate seamless integration with relevant government entities, credit bureaus and other stakeholders. This digital work also will include building out the e-channel platform to provide simple and convenient access to product offerings and customer service tools.

Given the relatively large number of lease financing customers who are not retail customers of Banque Saudi Fransi, SFL will continue to focus on cross-selling opportunities to introduce its customers to the full-service banking solutions offered by the Group's companies and subsidiaries.

Saudi Fransi Agency

Saudi Fransi Agency (SFA), a fully owned bancassurance subsidiary of BSF, was established in 2010 to promote and sell insurance products to the Bank's existing and prospective customers. SFA has an exclusive distribution agreement with Allianz Saudi Fransi, a Bank affiliate, to promote and sell its insurance products to Bank customers.

Achieving balance

In 2019, SFA delivered strong results following its introduction in 2018 of a number of new bancassurance products. Most notably, the business achieved a dramatic rebalancing of its portfolio. In prior years, nearly 90 percent of revenue came from writing retail policies and only 10 percent from corporate. By the end of 2019, there was an even 50 percent split between the two lines.

In building out the corporate team, the business saw an increase in staff-related expenses in 2019, that was offset by a focus on cost efficiencies, resulting in a 14 percent decrease in general and administrative expenses, compared to the prior year. On the retail side, SFA fully implemented its new retail bancassurance project: "Video Conference Call".

As a result, for 2019, SFA achieved an increase of 21 percent in the value of total collected corporate gross written premiums. As a whole, corporate commissions increased by one percent during the year.

Assuring peace of mind

Looking ahead to 2020, SFA will build on the success achieved in its corporate business in 2019 by bringing that same energy to further expand its retail bancassurance operations.

Across the entire SFA operation, teams will look to surpass the strong sales targets achieved in 2019. These goals will be supported by the Bank-wide commitment to leveraging new digital technologies. For SFA, this means putting a priority on building out the digital platforms for its retail bancassurance products.

Business Review continued

Allianz Saudi Fransi

Allianz Saudi Fransi
Allianz Saudi Fransi Cooperative Insurance Company (ASF) provides comprehensive insurance solutions in all lines of business, such as motor, health, savings, protection, property and casualty for individual and corporate customers. Combining the global experience of the Allianz Group, which is today the world's most valuable insurance brand, and the local know-how of Banque Saudi Fransi, ASF provides its customers with best-in-class products and customer service, unmatched risk calculation and management.

Simplicity Wins
During 2019, ASF was guided by the principle that 'Simplicity Wins'. With this vision, the business prioritised efficiencies and reinforced its customer-centric approach. Externally, ASF expanded its distribution channels, in part by leveraging the Bank's ongoing digitisation with the launch of an online sales portal and the end-to-end digitisation of its products. As well, the onboarding of new employees helped reinforce ASF's commitment to better meeting customer needs.

Internally, ASF pursued simplicity through its ongoing transformation toward a simpler organisational structure. This helped further the goals of delivering enhanced customer service and meeting evolving market demands.

Driving growth through exceptional talent
During 2020, ASF will continue to build empowerment into the organisation and nurture a best-in-class work culture through intensive talent management and leadership development for new and current employees.

Meanwhile, continued growth in both individual and corporate business will be driven by an increasingly streamlined and simplified organisation, as well as by macro-economic factors driving economic growth in Saudi Arabia, including an increasingly vibrant and confident business sector that includes some of the world's largest companies, and the ongoing implementation of Saudi Vision 2030.

Financial Review

2019 performance in numbers

Net income increase
+122%

Net income before zakat and income tax (SAR m)
3,619

Dividend per share (SAR)
2.00

Net income increased by 122% during 2019, mainly due to reduction in zakat and income tax provision by SAR 1,400 million. The Bank reported zakat and income tax through the statement of income for the year ending 2019 amounting to SAR 504 million and restated the year ending 2018 by 1,904 million. Previously zakat and income tax were reported in the statement of changes in equity. In Q4 2018, the Bank entered into a settlement of zakat claims agreement with the General Authority of Zakat and Tax (GAZT) for previous years amounting to SAR 1,511 million.

However, net Income before zakat and income tax was SAR 3,619 million for the year, which is SAR 312 million (9.4%) above last year, mainly due to lower impairment of financial assets in 2019 (excluding the exceptional gain recorded last year for the sale of Allianz shares, it would be 12.8%).

Total operating income for 2019 was SAR 6,873 million, which is 1.1% above last year (2.6% excluding the impact of Allianz Saudi Fransi shares sale in 2018), mainly due to higher commission fee and net special commission income growth driven by an increase in loans, better net interest margin and a drop in expensive deposits, as the Bank continued to optimise balance sheet.

Operating Expenses were lower than last year and well controlled, however there was a cost shift between rent and premises costs to depreciation due to IFRS 16 implementation. Operating profit was also above last year by 1.7%. 2019 cost to income ratio of 33.28% was better than last year's 33.70%. Total expenses reduced by 0.2% along with an operating income increase of 1.1% resulted in an improved Jaws ratio for the year compared to 2018.

Cost of credit risk increased to 78 bps from 73 bps last year, while coverage ratio declined to 109% from 112% in 2018. However, net provisions and impairment charges of SAR 966 million was below last year by SAR 237 million (19.7%). The Bank's NPL ratio also decreased to 2.64% compared to 2.91% in 2018.

Loans and advances stood at net SAR 125.7 billion, a SAR 5.1 billion (4.2%) increase compared to 2018. This was mainly driven by strong growth in retail mortgage loans, whereas corporate loans witnessed moderate growth. Interbank lending and cash and balances with SAMA dropped, as the Bank continued to improve returns by decreasing lower yield assets.

Customer deposits of SAR 132.8 billion decreased by SAR 15.6 billion (10.5%) compared to last year, driven by reduction in expensive time deposits. This has reduced cost of funds, achieving efficiency in balance sheet management and improving the non-commission-based deposits mix to 55% versus 49% in 2018. The Bank's Regulatory Loan to Deposit Ratio stood at 85.81%.

The Board of Directors recommended a distribution of a total net dividend of SAR 2.00 per share, compared to SAR 1.70 per share in 2018. Also, Risk Weighted Assets (RWA) decreased by 0.57% to SAR 178.6 billion. The Bank maintained solid Capital Adequacy Ratios (CAR) of 19.20% (Tier I + Tier II) and 18.32% (Tier I), providing a strong capital base to support future development.

Abdullah Alkhalifa
Chief Financial Officer

Business Review continued

Technology and Operations Group

In 2019, the Technology and Operations Group focused on reducing turnaround times, optimising costs and enhancing controls. Through robotics process automation, liquidity management monitoring, and reconciliation of internal accounts, the Group helped speed customer service and response times.

Costs were improved through the restructuring and centralisation of letters of guarantee processes, account servicing, legal files, and transaction control functions. Many other operational activities also been brought under the Group's responsibility.

Customer Experience
The Group continues to support the Bank's customer-centric approach through projects such as e-KYC (know your customer) debit cards issuance, ApplePay, HalalaH e-Wallet, the ability to print bank guarantees at branches, the branch roll out of the Loan and Deposits Portal, the launch of treasury repo products to retail and corporate clients, expanding the currencies available for customer transfers to include the Malaysian Ringgit (MYR) and South Africa Rand (ZAR), and implementing the e-Statement Portal.

The Group supported the Islamic Banking digitisation project by implementing the interface between the Bank's internal systems and the broker's commodity management system to enable commodity purchases, SMS purchase confirmation to clients, and enabling Tawarruq fees automation.

The Group received two significant awards in 2019: the 'Straight Through Processing Excellence Award' from Citibank and JPMorgan for the Bank's high level of automation and efficiency, and the '2019 Best Trade Finance Bank' award at the 7th Annual Trade Finance Summit held in Riyadh.

Governance and Cost Optimisation
During 2019, the Group completed several governance enhancements. The digitisation of corporate legal files classification and barcoding was completed, easing access and handling.

As a result of several successful cost-reduction initiatives, the Group achieved a significant 3.9 percent reduction in general expenses.

Property Management Division
The Property Management Division achieved cost savings during 2019 through value engineering, contract optimisation and the application of energy saving programmes. We expect continual savings in contracts effective in 2020.

The division also delivered several major renovation, modification, upkeep, maintenance and infrastructure projects. These included major work on two Private Banking branches, four retail branches, the Jeddah Cash Office, and work at the Eastern Main Building. Work at the Head Office included an Innovation Lab, a Breakout Lounge, and new car parking shades. Maintenance work included rebranding ATM machines at 34 retail branches.

Procurement Division
During 2019, the Procurement Division continued to support the Bank's bottom-line results in areas such as enhancing control and transparency practices to meet Bank standards and global best practices, developing strong partnerships with vendors, and putting in place 'value-for-money' norms.

In support of Bank end-user purchasing, payment processing, bidding, contracts, fixed-assets inventory, vendor and materials management – comprising more than 13,000 transactions valued at more than SAR 1.1 billion – the division achieved significant savings and financial cost optimisation.

Technology Services
With technology playing an increasingly strategic role across the banking industry and within the Bank's LEAP strategy, Technology Services collaborated with business lines and departments to provide the best customer service and most efficient operations. Automation and digitisation were key implementation areas for Technology Services during 2019. These efforts included the incubation of more than 100 projects and initiatives designed to enhance the customer experience, improve IT services, enhance system stability, ensure regulatory compliance, and reduce turnaround times.

Not only did service availability remain steady, with an average rate of 99.67 percent, but an important business recovery process exercise demonstrated the Bank's IT readiness to meet unforeseen circumstances.

Business Value Projects
Technology Services supported the Global Transactions Business with a new version of FransiGlobal that featured a major facelift and offered a unified experience across the bank's channels.

Seeking to improve the effectiveness and accuracy of data, automated enterprise solutions that eliminate manual processes were implemented, alongside ongoing work to automate daily loan and deposit board rates to benefit business lines when pricing customer loans and deposits. Liquidity automation was delivered to enable efficient enterprise-level management of cash flows and better stress testing management. Automation of credit value adjustment (CVA) is ongoing, as required by local and international regulators to eliminate manual sourcing and calculations.

In cooperation with the Corporate Operations Group, Technology Services is building artificial intelligence capabilities to automate repetitive tasks and is developing Robotics for Operations, for improved processes, costs, quality and compliance.

Technology Services supported the Retail Banking Group's digital transformation by helping to launch Apple Pay and by supporting the digital branch transformation programme, and the revamp and launch of ATM, kiosk and contactless services.

Additionally, a new compliance transformation programme was delivered that integrates, both with SAMA's new Tanfeeth platform and the Common Reporting Standard project.

Technology Services supported the Saudi Aramco IPO and IPO loan system, as well as implementation of new IFRS 16 accounting standards. A new Case Management System through DMAS (Document Management System) was put in place to manage and track corporate customers' credit documents.

Disaster Recovery and Cybersecurity
During 2019, Technology Services conducted several disaster recovery exercises in areas that included customer-facing e-channels, security infrastructure, batches, branches and treasury applications during business days. Technology Services maintained the security of the Bank and customer data, ensured continuity of operations, and safeguarded the integrity of its systems and information.

In coordination with Corporate Information Security Division, several security improvements were implemented, including privileged password management, critical database integration with monitoring system, automated access review, and high-availability network intrusion prevention. In compliance with the SAMA Cyber Security Framework, efforts are ongoing to enhance Bank monitoring capabilities through Splunk, an enterprise security platform.

Improving Infrastructure
Recognising that business gains, efficiency, and quality of service depend on reliable infrastructure, Technology Services delivered on a number of infrastructure transformations that began in 2018. With a focus on simpler, better, faster, and more cost-effective, high-impact transformations included replacing legacy backbone switches with application-centric infrastructure, decommissioning more than 110 physical servers and replacing them with new servers under virtualised environments, and completing the 'evergreening' of Bank infrastructure.

Our People

Building our workforce of tomorrow

The HR Group is responsible for the recruitment, hiring, training, retention and promotion of all the Bank's employees. About 1,000 people work across 87 branches, while 2,000 work in the headquarters in Riyadh and regional offices in Jeddah and Al Khobar. Reflecting the youthful vibrancy of the Saudi economy as a whole, the Bank has an increasingly young and diverse workforce, with Millennials comprising 83 percent of joiners during 2019.

A record-breaking year

In 2019, Banque Saudi Fransi achieved new records across key areas related to the diversity of our workforce and how our talent across the organisation are being engaged and supported to maximise their potential and the Bank's performance.

The Bank achieved an all-time high for the number of female employees and for the share of Saudi nationals, two perennial focus areas. It also achieved a new record for the rate of employee movement between positions within the Bank, reflecting the focus we put on providing mobility and opportunity for our talent. As well, employee engagement soared, with the employee net promoter score breaking new records and registering historic improvement.

These numbers reflected the early success in implementing the people-focused Five-Year Plan that was developed in 2018, and implemented in 2019. Through dozens of initiatives and programmes, the Plan is building an organisational structure that reflects the skills needed to meet market requirements in an evolving banking sector.

At its heart, the Plan puts the Bank's people first by focusing on four areas: developing talent that is flexible, mobile and agile; enabling the organisation itself to be more nimble; nurturing innovation among employees; and structuring incentives and systems that encourage an even higher performing workforce.

To drive the plan forward in 2019, the HR Group focused on its services, operations, processes and strategies. The Group worked with business lines across the Bank to restructure their organisations to deliver better value. Digitisation was used to configure a new automated recruitment system (Talentera), and to automate and streamline a new employee onboarding process. Also supporting the commitment to operational efficiency, the division completed a delegation of authority (DOA) review and implemented a revamp of HR processes and policies across the Bank.

Our five-year people plan

Develop mobile talent
- Create an internal job market
- Build cross-functional capabilities
- Institutionalise talent processes
- Hire/place for diversity, "agile DNA", change management, execution, data analytics

Deliver with agility
- Drive a flatter architecture/ clear accountable roles
- Optimise as we automate
- Develop stable/disruptive leaders
- Allow for simplified/ faster decision making

Innovate through engagement
- Allow for collective and individual participation
- Instil values that enable a relevant/differentiating culture
- Drive winning customer experience/time to market
- Create an entrepreneurial landscape

Enable performance
- Implement an actionable business strategy/link to goals
- Enable performance driven reward decisions
- Create a potential based development/progression approach
- Develop data transparency

Building our workforce of tomorrow

To reinforce the Bank's status as an employer of choice for top talent in the banking sector and build the skills and knowledge needed for the Bank to grow and achieve its Vision, the People division designed and launched a new Learning Strategy 2020-22 at the end of the year. Rollout will begin in early 2020.

Our learning principles

We defined eight learning principles to guide our new learning strategy.

1. **Create a learning organisation**
2. **Invest in our people and drive performance**
3. **Align learning to solve real business problems**
4. **Drive learning agility across the organisation**
5. **Enhance learning through focus on the learner**
6. **Make learning fun and memorable for all**
7. **Make learning measurable to prove its value**
8. **Elevate our employees and their career prospects**

Our People continued

Aligning strategy with learning & development

How we will ensure the right people with the right skills with the numbers and in the right places to deliver our strategy.

External Environment → Business Strategies & Imperatives → L&D Opportunity Areas → L&D Implications

Our learning audiences

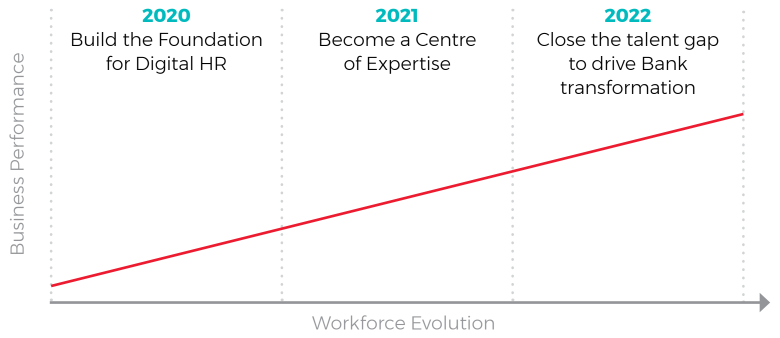
We defined our key learning audiences and the individual L&D focus, content and programmes that each would need to fulfil their roles and objectives.

Executives	Future Leaders	Front-line Bankers	Control Professionals	Corporate Functions Professionals	New Hires / Fresh Graduates

Our learning journey

We mapped out our three-year learning journey to boost business performance through the development of skills and expertise across critical areas throughout our business.

By developing our talent in line with the future needs of our industry and strategic direction of our Bank, BSF will drive individual and collective success for years to come.



Investing in our talent and diversity

2019 extended the record-breaking performance achieved in 2018. By the end of 2019, the Bank's total employee headcount was 2,693. Among them, 91.83 percent were Saudi nationals while 17.08 percent were female. Both were all-time records for the Bank, with the rate of female employment up a significant 3 percent, reflecting a concerted effort to boost the diversity of the Bank's workforce.

Recruitment & retention

Reflecting further signs of an increasingly attractive work environment, employee turnover fell slightly, to just over 14 percent, the number of leavers declined 4 percent, and the number of joiners grew by 3.8 percent, compared with 2018.

Meanwhile, internal promotions rose dramatically, with 50 percent of employees moving into new roles, up from 29 percent the previous year.

This number was driven by an internal mobility programme to encourage sourcing from within the Bank's talent pool and reflects the successful implementation of the 'Develop Mobile Talent' pillar of the Five-Year Plan.

Complementing these moves, the HR Group division launched several important talent development programmes, including a Bankers Associate Programme, a Credit Academy, and training curricular in areas such as cybersecurity. As well, to ensure a strong leadership team and smooth succession at the senior level, a leadership readiness and succession assessment was conducted at both the group and individual levels, alongside 360-degree reviews of top management positions and the launched of a 180-degree CEO review.

To promote performance excellence and to ensure that Bank compensation reflects market conditions and best practices, the HR Group launched an automated personal objectives-setting tool that incorporates the Bank's new performance management design. A market compensation benchmarking exercise was completed in 2019 to aid in compensation decisions, alongside implementation of a revised fixed-pay review cycle that builds data transparency and consistency into all rewards decisions.

Rounding out the re-evaluation of the compensation programme, the HR Group revised the Bank's incentive scheme framework with initiatives such as THRIVE, a long-term incentive programme developed to encourage and address the needs of long-term employees.

Employee Engagement

A critical example of success in delivering against the Bank's LEAP strategy was the huge turnaround in the employee net promoter score (eNPS). The delta from the baseline eNPS established in 2018 was 27.2. This score lifted the Bank's position from the fourth quintile to the third quintile within the international eNPS benchmark. Given this positive movement, it was no surprise the Bank saw a 20 percent increase in participation by employees in the eNPS survey.

Our engagement and retention programmes contributed to this turnaround, including Bank-sponsored, cross-regional and employee-driven events. Some examples of these include the 'BSF Ideal Wall', an employee engagement idea generating tool. Other employee-driven cross-regional events included group leadership team building sessions, regional team summits, and networking activities which provide opportunities for both staff and senior leaders to connect.

A new Bank initiative was launched in 2019 to provide employees with access to lending at preferred rates, while an HR Call Centre designed to elevate the employee experience was made operational during the year, offering employees a direct line to valuable HR information.

Learning & Development

Employee retention and engagement also was strengthened through a robust training programme run throughout the year. During 2019, the People division delivered 6,545 seats of training, 97 percent of which was conducted in-house.

In total, 2,850 employees received training in areas such as control and regulatory skills (36%), professional skills (27%), banking skills (16%), management skills (10%) and technical skills (7%).

Focus on leadership, digitisation & culture in 2020

Following the successes achieved in 2019 and the strong foundations laid by the Five-Year Plan, the HR Group in 2020 will emphasise leadership development and digital upskilling, while also taking a deeper look at the corporate culture.

Having established a strong sense of roles and compensation for leadership in 2019, during 2020, the Group will make important investments in leadership development. At the same time, across the Bank's workforce, there will be a major effort to adjust to the ongoing digitisation of the customer experience. This will include a realignment of roles, new training and skills development, and talent mobilisation at every level of the organisation.

With our LEAP strategy in place, and given the company values developed in conjunction with that strategy, the division now has an opportunity to examine the broader Bank culture. This culture audit will seek, among other goals, to measure the impact of these values on the organisation, so the Bank can continue to foster a diverse, inclusive and engaging environment for all our people in 2020 and beyond.

2019 performance in numbers

New Hires
350

Saudi Nationals
91.83%

Female Employees
17%

Internal Promotions
50%
(vs 29% in 2018)

Employee Net Promoter Score
+27 points

Employees Trained
2,850

Training Seats Offered
6,545

Our Corporate Social Responsibility

Investing in our world

Corporate social responsibility is deeply integrated into the Bank's business activities, reflecting the organisation's commitment to operating a more sustainable and inclusive model that recognises companies have a responsibility to make a positive impact on the world.

This includes a sense of national duty and a commitment to advance socio-economic development, including by supporting Saudi Vision 2030. More broadly, the Bank recognises that by providing its government, business and entrepreneur customers with the financial tools they need to succeed, it helps create good jobs, supports local communities, and, ultimately, secures the future of people across the Kingdom.

Programmes and partnerships for positive impact

Beginning in 2018 and continuing into 2019, the Bank is developing new frameworks and a more structured approach that will help the organisation better measure the impact of its CSR initiatives on its stakeholders and its bottom line. This framework is being developed with the understanding that the Bank can have an outsized impact in addressing some of the most pressing challenges related to the environment, society and governance.

Even as the Bank implements this work, it continues to support Saudi Vision 2030 and its Vision Realisation Programs, including the Financial Sector Development Program. During the year, the Bank led or engaged in a wide range of charitable and social development initiatives and awareness campaigns, from food and clothing distribution to housing rehabilitation.

On a more strategic level, the Bank participated in the inaugural Riyadh International Humanitarian Forum, a global symposium under the patronage of the Custodian of the Two Holy Mosques, King Salman bin Abdulaziz Al Saud, that aims to deliver new ways of dealing with changing global humanitarian needs.

Implementing our CSR framework

In 2020, the Bank will finalise its CSR framework and approach and begin its implementation, while continuing to deliver services and resources to the community.

BSF participation in 2019:

Programme name
Winter clothes distribution
The forum of Saudi banks and social responsibility
International Childhood Cancer Day
Etaam's meals distribution
Food loss and waste index
The Special Needs Training Program, supporting the 'let's be part of their future' campaign
World Autism Day
Arab Financial Inclusion Day at King Saud University
Arab Financial Inclusion Day at Banque Saudi Fransi head office
Financial awareness and its importance in life at Ministry of Labor and Social Development
'Savings are a trade' at the Ministry of Commerce and Investment
'Savings in lifestyle' at the Ministry of Health
'Savings in the budget of the individual and family' at the Ministry of Municipal and Rural Affairs
International Day for Older Persons
Restoration of some houses
International Day of Persons with Disabilities
Donation to (Elaji) the Charitable Society for Patients Care
Furijat-General Directorate of Prisons

Prioritising governance and risk management

As a responsible corporate citizen with robust risk management and governance functions, we bolstered our approach to identifying and mitigating risks, while effectively managing historic Board and shareholder changes and strengthening governance capabilities across the organisation.

Corporate Governance

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Board of Directors

Mazin Al Romaih

Chairman

Current appointments

CEO of Future Generation Investment Company

Previous appointments

Member of the Board of Capital Market Authority, 2009-2014

General Manager and Chief Executive Officer at Samba Capital & Investment Management Company (Samba capital), 2008-2009

General Manager of Corporate Finance Department at Capital Market Authority, 2004-2007

Qualifications

Bachelor of Accounting and Financial Management, University of Buckingham, 1992

Talal Al Maiman

Vice Chairman

Current appointments

CEO of Kingdom Holding Company

Previous appointments

Chairman of the Board and CEO of Kingdom Real Estate Development, 2010-2017

CEO of Kingdom Holding Company, 1996-2016

Director of Computer Department at Saudi Arabian Monetary Authority, 1986-1996

Director of Operations & Maintenance at Ministry of Interior, 1979-1986

Qualifications

Master of Business Administration, University of Liverpool, UK, 2009

Bachelor of Sciences in Electrical Engineering, University of Evansville Indiana, US, 1979

Executive Management Program, Harvard University, 1986

Diploma in Computer Science, Computer Sciences Corporation (CSC), Herndon, Virginia, 1981

Khaled Al Mutabagani

Board Member

Current appointments

Pediatric Surgery Consultant at New Jeddah Clinic Hospital

Previous appointments

Pediatric Surgery Consultant at King Faisal Specialist Hospital, Jeddah, 2000-2001

Assistant Professor, Physiology at King Abdulaziz University, Jeddah, 2000-2002

Qualifications

Ph.D. in Physiology, Ohio State University, 1999

Abdulrahman Al Rashed

Board Member

Current appointments

Member of Al Shura Council

Executive partner at Rashed Abdul Rahman Al Rashed & Sons Company

Chairman of the Board of Directors of Dammam Hotels Company

Chairman of the Board of Directors of UNICOIL Universal Metal Coating Company

Qualifications

Bachelor of Business Administration, Department of Finance, University of Seattle, 1985

Bader Al Issa

Board Member

Current appointments

CEO of Assila Investment Company.

Previous appointments

CFO of Assila Investment Company

Investment Portfolio Manager at HSBC Saudi Arabia Limited, 2006-2008

Financial and Marketing Analyst at SABIC America, Houston, Texas, 2002-2004

Financial Analyst at JP Morgan, London, 2001-2002

Qualifications

MBA, Rice University, 2006

Bachelor of Economy, The University of Virginia, Charlottesville, Virginia, 2001

Abdullatif Al Othman

Board Member

Current appointments

Owner and CEO of Al-Othman Engineering Consultants

Previous appointments

Governor and Chairman of the Board of Directors, General Authority for Investment 2012-2016

More than 35 years in the field of planning and managing oil and gas projects, financial management, investment, business and international relations development.

Qualifications

M.A., Sloan Fellows program, Massachusetts Institute of Technology, 1998

Bachelor of Mechanical Engineering, King Fahad University of Petroleum and Minerals, 1979

Ghazi Al Rawi

Board Member

Current appointments

Chairman & CEO of Valuegate Investments Company

Previous appointments

Managing Partner – Eastgate Capital Group 2006-2015

Assistant Professor, Electrical Engineering – King Abdulaziz University 2004-2006

Associate – McKinsey & Company 2003-2004

Research Assistant – Stanford University 1999-2002

Qualifications

Ph.D. in Electrical Engineering (EE), Communication, Stanford University, 2003

M.S. in Management Science and Engineering (MS&E), Finance and Investment, Stanford University, 2001

Master's in Electrical Engineering (EE), Communication, Stanford University, 1998

Bachelor of Electrical Engineering (EE), Communication, King Abdulaziz University, 1994

Khaled Al Omran

Board Member

Current appointments

General Manager of Daily Food Company

Previous appointments

10 years in Retail

2 years in Management Consulting

Qualifications

Master's in Business Administration, IESE Business School, Spain, 2012

Bachelor of Finance, King Fahad University of Petroleum and Minerals, 2006

Timothy Collins*

Board Member

Current appointments

Senior Fellow and Director of the Henry P. Belton Fellowship Program, Yale School of Management

Member at New York State Common Retirement Fund Investment Advisory Committee

Member at Yale Divinity School Advisory Board

Previous appointments

Director at RHJ International, 2004-2018

Director at Gogo, Inc, 2013

Director at Citigroup, Inc., 2009-2012

Director at Weather Investments SpA, 2008-2011

Director at 3W Power Holdings Ltd, 2009-2011

Director at Commercial International Bank of Egypt, 2006-2009

Director at RSC Holdings Inc., 2006-2009

Qualifications

Honorary Doctorate of Humane Letters, DePauw University, 2004

MBA in Public & Private Management, Yale University, 1982

BA in Philosophy, DePauw University, 1978

Rayan Fayez

Managing Director & Chief Executive Officer

Current appointments

Managing Director and CEO of Banque Saudi Fransi

Previous appointments

CEO of Savola Group, 2016-2018

Managing Director and Senior Country Officer at JPMorgan Chase N.A. Riyadh Branch, 2013-2016

CEO of JP Morgan Saudi Arabia Limited, 2012-2013

CEO of Goldman Sachs, Saudi Arabia, 2009-2012

Executive Director at Goldman Sachs International, London, 2007-2009

Qualifications

Bachelor of Science in Mechanical Engineering, Massachusetts Institute of Technology (MIT), 2001

* Appointed as a Board of Directors member as of 23/04/2019.

Executive Management

Mazen AlTamimi

Senior Executive Director – Institutional Banking Group

Mazen was appointed Senior Executive Director – Institutional Banking Group in October 2017.

Prior to his current post, Mazen started his career as an Executive Trainee in BSF and became a Corporate Banking Division Officer, Western Region from 1990-1999. He was Corporate Banking Division Manager, Western Region from 1999-2003 and Regional General Manager, Western Region from 2003 to 2017. In addition to the above, he also serves various boards and committees in Saudi Arabia and abroad. Mazen has 29 years of professional banking experience, with a unique blend of managerial and operational expertise in regional management and corporate banking, and with proven ability in building a competent business organisation and employee development.

Mohammed AlSheikh

Head of Retail Banking Group

Mohammed joined Banque Saudi Fransi as Head of Retail Banking Group in July 2018.

He is an accomplished banker with extensive leadership and a wealth of experience in various well-known banks in Saudi Arabia.

Mohammed started his career as an executive trainee in SABB and became the Islamic Banking Specialist, before being appointed Corporate Banking Manager between 2005 to 2008. He moved to ANB as Manager of Islamic Banking Product Development until in 2011 he became Head of the Consumer Credit Administration and then Head of Branch Network position Deputy General Manager – Retail Banking. In 2017, he was Head of Branch Banking Assistant General Manager – Retail Banking at Alrajhi Bank before joining BSF.

With extensive people management skills and ability to drive change while delivering transformational growth, his experience runs across cross Kingdom sales, consumer product development, Islamic banking, retail operations/compliance and customer servicing/experience.

Adel Mallawi

Chief Investment Officer

Adel was appointed Chief Investment Officer of Banque Saudi Fransi in April 2019.

He previously served as head of Finance and Strategy (CFO) from 2017 to 2019. Adel has 26 years of experience with BSF where he started in 1994 as part of the professional development program. He spent most of his career in the field of treasury and investment. He was Head of Global Markets Group from 2011 to 2017 where he was in charge of the implementation of all new regulations that changed the market after the financial crisis. Adel served as Chairman of the Board at SAKAN and Board, Executive, Risk and Investment Committee member at Allianz Saudi Fransi. Also, he sits on Audit and Executive Committee at Saudi Fransi Capital.

Mr. Mallawi earned a Bachelor of Science degree from King Saud University, in addition to various executive certificates from INSEAD, IMD and GCC BDI.

Abdullah Alkhalifa

Chief Financial Officer

Abdullah was appointed Chief Financial Officer of the Bank in December 2019, bringing over 27 years of strategic banking sector experience to the role.

Before joining Banque Saudi Fransi, Abdullah was the CFO of Al Rajhi Bank for over 4 years and the CFO of Arab National Bank for 9 years. Prior to that, he spent 11 years with SAMBA, including over 3 years in London.

Abdullah earned his Bachelor's Degree in Accounting from King Saud University and his Master's Degree in Accounting from the University of Miami in the United States.

Thamer M. Yousef

Chief Operating Officer

Thamer was appointed Chief Operating Officer in 2018 and has been an experienced banker for over 24 years.

He has introduced a new core banking system, next-generation internet and mobile banking, new treasury solution covering front-middle-back office systems supporting the branches, and pioneered several digital banking solutions in Saudi Arabia.

Prior to his role, he was Assistant General Manager – Technical Support at SAMBA, Senior Executive – Telecom and Office Automation at SABB as well as Senior Executive – Information Technology and Chief Information Officer & Chief Digital and Data Officer. At BSF, he has held the post of Chief Information Officer, Acting Chief Operating Officer and Board of Director – BSF Markets Limited.

He is an active member of several committees inside and outside the bank. His interest focuses mainly on providing customers with reliable systems and processes from all bank delivery channels and to meet the digital banking services demand of the Saudi market.

May AlHoshan

Chief Human Capital Officer

May joined BSF in August 2018 as Chief Human Capital Officer.

Previously, she was at Alawwal bank as Human Resources General Manager responsible for leading the bank's HR transformation. With extensive experience in the HR field, she has led various change and transformation tracks covering organisational development, performance management and leadership development. Prior to joining Alawwal bank, May was the head of human capital management at NCB Capital and was part of the founding management team since the inception of NCB's investment arm. Her previous roles include managing leadership development, high potential programs, and organisational/human capital strategy.

May serves as a board and NRC member at Care, and as NRC member at Bupa and the National Center for Privatisation.

May holds a bachelor's degree in business administration and organisational behaviour from Boston University of Management and a Master's in Engineering Management and Knowledge Management from George Washington University, USA.

Ravishanker Visvanathan

Chief Risk Officer

Ravishanker was appointed Chief Risk Officer in December 2017.

He has more than 30 years in the financial services industry in Saudi Arabia, Bahrain, United Arab Emirates, and India.

He commenced his career with HDFC Ltd., the first mortgage finance provider in India, as a management trainee. He was subsequently in business development roles with Citibank (India) and as ratings analyst with CRISIL, India's first credit rating agency. After his role with Middle East Bank UAE in commercial banking, he joined Banque Saudi Fransi – Corporate Banking Group in 1991. He later served as Head of Credit Risk for 12 years covering all business verticals of the bank. Between 2013 and 2017 he served in senior risk management roles with banks in Bahrain and Saudi Arabia before rejoining Banque Saudi Fransi.

Ravishanker has a Bachelor Degree in Chemistry and a Master's Degree in Business Administration from premier institutions in India.

Abdulaziz AlMolhem

Regional General Manager – Eastern Region

Abdulaziz has held the position of Regional General Manager in Eastern Region at Banque Saudi Fransi for more than 10 years.

With 35 years of diversified and extensive experience in the banking industry, with a focus on banking operations and management. He started his career in BSF under the professional training program in the Khobar Branch and held various positions in the bank, including Retail and Commercial Credit Officer, Corporate Relations Officer, Human Resources Manager-Eastern province, Branch Manager and Network Manager. In 1995, he worked for Saudi Hollandi Bank/AlAwwal Bank, where he held various senior positions and committee memberships, including Head of Personal Banking Group, Regional Manager, Chairman of the Consumer Banking Committee, Acting in-charge for Marketing Department, Acting in-charge for Remote Delivery Channels, Member of the Internal Audit Committee, Member of the new Core Banking System Steering Committee, Member of the Strategic Change Program Committee, Stream Leader of the Strategic Change Program and Member of the Maximum Growth Strategy Committee.

Executive Management continued

Mike Cunningham

Chief Strategy & Digital Officer

Mike joined BSF as Chief Strategy & Digital Officer in 2018.

Mike is a thought leader and digital practitioner of innovation within financial services and has an unmatched global network with the world's leading FinTechs, Accelerators and the established corporates. He mentors new FinTech start-ups at two of the region's leading accelerators in Dubai and Lebanon. Before joining BSF, Mike was the CEO of a digital-only bank called, CLEARLY. Prior to that, in 2008, Mike was Executive Vice President at Abu Dhabi Commercial Bank where he led Group Strategy and Innovation. Before that he worked for Barclays as a Managing Director in Europe, Asia, Africa and the Middle East where he led the de-novo market entry and establishment of Barclays in India, Pakistan and Namibia.

With more than 20 years of financial services experience, Mike has a deep understanding of building and innovating digital financial services in emerging markets with extensive knowledge of customer experience transformation

Abdallah AlShaikh

Head of Legal & Governance

Abdallah was appointed Head of Legal & Governance in 2018.

With more than 15 years of relevant experience, he has worked in the legal division of the bank's regulators (SAMA and CMA) and has also enjoyed international experience through working overseas with both Dentons LLP and Nasdaq OMX Group. Before joining BSF, Abdallah has served as the Head of Legal & Corporate Secretary of both Samba Capital and Samba Financial Group.

Abdallah holds Bachelor's degree of Law from King Saud University, Saudi Arabia, and Master of Law from Harvard Law School, USA.

Abdulmohsen AlRayes

Chief Audit Officer

Abdulmohsen was appointed Chief Audit Officer in Banque Saudi Fransi in August 2017.

With 34 years of experience in the Banking industry, he developed his career from a Branch Manager to his current position. He developed his expertise in Business Development and Banking Operations by working in the Saudi British Bank as the Head of Retail Operations and as Head of Internal Audit Division at Arab National Bank. He has experience in Audit, Banking Operations, Banking Regulations, Retail Banking, Risk Management, Compliance and, in addition, extensive knowledge of International Standards and Best Practices of Internal Auditing. Abdulmohsen started his career in Saudi British Bank as a Branch Manager in 1982 and in 1989 he was promoted to the position of Senior Retail Manager of the Central Region for two years. After that, he moved to the Saudi Industrial Development Fund as the Head of International Recruitment for five years. He spent nearly 20 years at the Arab National Bank, where he held the position of the Regional Manager of the Central Region (1998 – 2001), Head of Retail Operations (2001 – 2003) and Head of Internal Audit Division.

Abdulaziz AlBani

Chief Compliance Officer

Abdulaziz Albani was appointed Chief Compliance Officer at Banque Saudi Fransi in 2017.

His recent activities include establishing the Bank's policies and procedures review, establishing corrective action plans, project management, supervising all communication with external governmental entities (SAMA, CMA, CCHI) and all other activities related to Compliance.

Previously, Abdulaziz Albani worked as a Senior Director – Anti Money Laundering and Terrorism Finance at Al Rajhi Bank where he contributed his knowledge and ability to maintain the organisation's obligation in supervising and reporting any money laundering activities. Abdulaziz also served as Senior Director – Customer acceptance/High Risk Clients in the same organisation during 2016. Between 2013 and 2015, Abdulaziz also worked as Head of Anti Bribery and Corruption/Special Category Clients (PEPs) and Operation at Saudi British Bank, where he focused on the standards on how employees will act to describe and identify bribery and corruption. He also Abdulaziz also worked as Senior Manager Compliance-Corporate and Global Banking before joining Banque Saudi Fransi.

Ismail AlOraini

Secretariat General

Ismail was appointed Secretariat General at Banque Saudi Fransi in 2017.

Ismail has more than 28 years of experience in the banking industry and has been with Banque Saudi Fransi for over 25 years. He has worked in many different areas of the bank including commercial banking, retail banking, credit and secretariat general, giving him a deep understanding and knowledge or not just the industry but the bank itself.

Ismail holds bachelor degree of Finance from Eastern Michigan University, USA.

Introduction

Ladies and Gentlemen: Shareholders of Banque Saudi Fransi

Greetings,

Banque Saudi Fransi (BSF) Board members are pleased to present their annual report for the fiscal year 2019.

Banque Saudi Fransi is a Saudi Joint Stock Company established by Royal Decree No. M/23 dated Jumada Al Thani 17, 1397H (corresponding to June 4, 1977), after taking over the operations of the Banque de l'Indochine et de Suez in the Kingdom of Saudi Arabia. The Bank formally commenced its activities on Muharram 1, 1398H (corresponding to December 11, 1977). It operates under Commercial Registration Number. 1010073368 dated Safar 4, 1410H (corresponding to September 5, 1989), through its 87 branches in the Kingdom of Saudi Arabia, with 2,688 employees. The objective of the Bank is to provide a full range of banking services, including Islamic products and services, which are approved and supervised by an independent Shariah Board. The Bank's Head Office is located at King Saud Road (AlMa'ather previously), AlMuraba' District, P.O. Box 56006, Riyadh 11554, Kingdom of Saudi Arabia.

The Bank operates mainly in the Kingdom of Saudi Arabia through the following main activities:

A. Retail Banking:
Includes on-demand accounts for customers of private enterprises, overdrafts, loans, saving accounts,deposits, credit cards, debit cards, consumer loans, some Forex products and car lease.

B. Corporate Banking:
Includes on-demand accounts for customers of companies and medium enterprises, deposits, overdrafts, loans and other credit facilities and financial derivatives.

C. Treasury:
Includes treasury services, trading activities, investment securities, capital markets, bank financing operations and financial derivatives products.

D. Brokerage and Investment Banking:
Includes investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities, retail investment products, corporate finance, international and domestic brokerage services and insurance.

Net income after Zakat and income tax for the 2019 financial year amounted to SAR 3,115 million compared to SAR 1,403 million in 2018. Net income increased by 122.02% mainly due to a reduction in Zakat and income tax provision.

Net income before Zakat and income tax for the 2019 financial year amounted to SAR 3,619 million compared to SAR 3,307 million in 2018, with the increase of 9.43% due to the increase in total operating income and decrease in total operating expenses.

Total operating income increased by 1.09% driven by net special commission income, gain on non-trading investments and fee and commission income that was partially offset by a reduction in trading income, and exceptional gain of SAR 97.3 million on the partial sale of Allianz Saudi Fransi, which was recognised last year.

Meanwhile, total operating expenses decreased by 6.90%. This decrease was primarily due to a reduction in impairment charge for other financial assets, rent and premises related expenses, salaries and employee related expenses and impairment charge for associate, all of which was partially offset by an increase in impairment charge for credit losses, other operating expenses, general and administrative expenses, as well as depreciation and amortisation.

Net special commission income increased to SAR 5,206 million, an increase of 3.77% (SAR 189 million) compared to SR 5,017 million in previous year. Total assets amounted to SAR 178,149 million at the end of 2019, a decrease of 6.36% compared to SAR 190,250 million in 2018. The investment portfolio grew by 10.86% to SAR 31,454 million at the end of December 2019 compared to SAR 28,372 million at the end of previous year. Net loans and advances also increased by 4.22% to SAR 125,725 million at the end of 2019 compared to SAR 120,632 million for the previous year. Customer deposits decreased by 10.47 % to SAR 132,838 million at the end of December 2019 compared to SAR 148,368 million for the previous year.

Banque Saudi Fransi will continue to achieve its strategic objectives to enhance its position in the banking sector, develop its market share and achieve the objectives of the 2030 Vision.

In this report, information is given on governance framework of the Board of Directors, its committees and internal controls, major indicators, subsidiaries, activities and disclosures during 2019 as per the regulatory requirements:

(1) Names, qualifications and experience of the Board, Board committees' members and Executive Management:
(A) Board of Directors Members:

	Name	Experiences		Qualifications
		Current Positions	Previous Positions	
1	Mazin Al Romaih	- CEO of Future Generation Investment Company	- Member of the Board of Capital Market Authority, 2009-2014 - General Manager and Chief Executive Officer at Samba Capital & Investment Management Company (Samba capital), 2008-2009 - General Manager of Corporate Finance Department at Capital Market Authority, 2004-2007	- Bachelor of Accounting and Financial Management, University of Buckingham, 1992
2	Talal Al Maiman	- CEO of Kingdom Holding Company	- Chairman of the Board and CEO of Kingdom Real Estate Development, 2010-2017 - CEO of Kingdom Holding Company, 1996-2016 - Director of Computer Department at Saudi Arabian Monetary Authority, 1986-1996 - Director of Operations & Maintenance at Ministry of Interior, 1979-1986	- Master of Business Administration, University of Liverpool, UK, 2009 - Bachelor of Sciences in Electrical Engineering, University of Evansville Indiana, US, 1979 - Executive Management Program, Harvard University, 1986 - Diploma in Computer Science, Computer Sciences Corporation (CSC), Herndon, Virginia, 1981
3	Abdulrahman Al Rashed	- Member of Al Shura Council - Executive partner at Rashed Abdul Rahman Al Rashed & Sons Company - Chairman of the Board of Directors of Dammam Hotels Company - Chairman of the Board of Directors of UNICOIL Universal Metal Coating Company		- Bachelor of Business Administration, Department of Finance, University of Seattle, 1985
4	Khaled Al Mutabagani	- Pediatric Surgery Consultant at New Jeddah Clinic Hospital	- Pediatric Surgery Consultant at King Faisal Specialist Hospital, Jeddah, 2000-2001 - Assistant Professor, Physiology at King Abdulaziz University, Jeddah, 2000-2002	- Ph.D. in Physiology, Ohio State University, 1999
5	Bader Al Issa	- CEO of Assila Investment Company.	- CFO of Assila Investment Company - Investment Portfolio Manager at HSBC Saudi Arabia Limited, 2006-2008 - Financial and Marketing Analyst at SABIC America, Houston, Texas, 2002-2004 - Financial Analyst at JP Morgan, London, 2001-2002	- MBA, Rice University, 2006 - Bachelor of Economy, The University of Virginia, Charlottesville, Virginia, 2001
6	Abdullatif Al Othman	- Owner and CEO of Al-Othman Engineering Consultants	- Governor and Chairman of the Board of Directors, General Authority for Investment 2012-2016 - More than 35 years in the field of planning and managing oil and gas projects, financial management, investment, business and international relations development	- MBA, Sloan Fellows program, Massachusetts Institute of Technology, 1998 - Bachelor of Civil Engineering, King Fahad University of Petroleum and Minerals, 1979

(1) Names, qualifications and experience of the Board, Board committees' members and Executive Management: continued

(A) Board of Directors Members: continued

	Name	Experiences		Qualifications
		Current Positions	Previous Positions	
7	Ghazi Al Rawi	- Chairman & CEO of Valuegate Investments Company	- Managing Partner – Eastgate Capital Group 2006-2015 - Assistant Professor, Electrical Engineering – King Abdulaziz University 2004-2006 - Associate – McKinsey & Company 2003-2004 - Research Assistant – Stanford University 1999-2002	- Ph.D. in Electrical Engineering (EE), Communication, Stanford University, 2003 - M.S. in Management Science and Engineering (MS&E), Finance and Investment, Stanford University, 2001 - Master's in Electrical Engineering (EE), Communication, Stanford University, 1998 - Bachelor of Electrical Engineering (EE), Communication, King Abdulaziz University, 1994
8	Khaled Al Omran	- General Manager of Daily Food Company	- 10 years in Retail - 2 years in Management Consulting	- Master's in Business Administration, IESE Business School, Spain, 2012 - Bachelor of Finance, King Fahad University of Petroleum and Minerals, 2006
9	Timothy Collins*	- Senior Fellow and Director of the Henry P. Belton Fellowship Program, Yale School of Management - Member at New York State Common Retirement Fund Investment Advisory Committee - Member at Yale Divinity School Advisory Board	- Director at RHJ International, 2004-2018 - Director at Gogo, Inc, 2013 - Director at Citigroup, Inc., 2009-2012 - Director at Weather Investments SpA, 2008-2011 - Director at 3W Power Holdings Ltd, 2009-2011 - Director at Commercial International Bank of Egypt, 2006-2009 - Director at RSC Holdings Inc., 2006-2009	- Honorary Doctorate of Humane Letters, DePauw University, 2004 - MBA in Public & Private Management, Yale University, 1982 - BA in Philosophy, DePauw University, 1978
10	Jacques Prost**	- Executive President of Wealth Management, CA Indosuez	- Executive Vice President of Crédit Agricole Corporate & Investment, France, 2013-2018 - Head of Project Finance at SFI, 2011-2013	- Bachelor of Finance, University of Paris Dauphine, 1988
11	Rayan Fayez	- Managing Director and CEO of Banque Saudi Fransi	- CEO of Savola Group, 2016-2018 - Managing Director and Senior Country Officer at JPMorgan Chase N.A, Riyadh Branch, 2013-2016 - CEO of JP Morgan Saudi Arabia Limited, 2012-2013 - CEO of Goldman Sachs, Saudi Arabia, 2009-2012 - Executive Director at Goldman Sachs International, London, 2007-2009	- Bachelor of Science in Mechanical Engineering, Massachusetts Institute of Technology (MIT), 2001

* Appointed as a Board of Directors member as of 23/04/2019.
** Resigned as of 17/03/2019.

(B) Board Committees' Members:

(B/1) Executive Committee:

	Name	Experiences		Qualifications
		Current Positions	Previous Positions	
1	Mazin Al Romaih	CEO of Future Generation Investment Company	- Member of the Board of Capital Market Authority, 2009-2014 - General Manager and Chief Executive Officer at Samba Capital & Investment Management Company (Samba capital), 2008-2009 - General Manager of Corporate Finance Department at Capital Market Authority, 2004-2007	- Bachelor of Accounting and Financial Management, University of Buckingham, 1992
2	Abdulrahman Al Rashed	- Member of Al Shura Council - Executive partner at Rashed Abdul Rahman Al Rashed & Sons Company - Chairman of the Board of Directors of Dammam Hotels Company - Chairman of the Board of Directors of UNICOIL Universal Metal Coating Company		- Bachelor of Business Administration, Department of Finance, University of Seattle, 1985
3	Talal Al Maiman	- CEO of Kingdom Holding Company	- Chairman of the Board and CEO of Kingdom Real Estate Development, 2010-2017 - CEO of Kingdom Holding Company, 1996-2016 - Director of Computer Department at Saudi Arabian Monetary Authority, 1986-1996 - Director of Operations & Maintenance at Ministry of Interior, 1979-1986	- Master of Business Administration, University of Liverpool, UK, 2009 - Bachelor of Sciences in Electrical Engineering, University of Evansville Indiana, US, 1979 - Executive Management Program, Harvard University, 1986 - Diploma in Computer Science, Computer Sciences Corporation (CSC), Herndon, Virginia, 1981
4	Rayan Fayez	- Managing Director and CEO of Banque Saudi Fransi	- CEO of Savola Group, 2016-2018 - Managing Director and Senior Country Officer at JPMorgan Chase N.A Riyadh Branch, 2013-2016 - CEO of JP Morgan Saudi Arabia Limited, 2012-2013 - CEO of Goldman Sachs, Saudi Arabia, 2009-2012 - Executive Director at Goldman Sachs International, London, 2007-2009	- Bachelor of Science in Mechanical Engineering, Massachusetts Institute of Technology (MIT), 2001
5	Timothy Collins*	- Senior Fellow and Director of the Henry P. Belton Fellowship Program, Yale School of Management - Member at New York State Common Retirement Fund Investment Advisory Committee - Member at Yale Divinity School Advisory Board	- Director at RHJ International, 2004-2018 - Director at Gogo, Inc, 2013 - Director at Citigroup, Inc., 2009-2012 - Director at Weather Investments SpA, 2008-2011 - Director at 3W Power Holdings Ltd, 2009-2011 - Director at Commercial International Bank of Egypt, 2006-2009 - Director at RSC Holdings Inc., 2006-2009	- Honorary Doctorate of Humane Letters, DePauw University, 2004 - MBA in Public & Private Management, Yale University, 1982 - BA in Philosophy, DePauw University, 1978

(1) Names, qualifications and experience of the Board, Board committees' members and Executive Management: continued

(B) Board Committees' Members: continued

(B/1) Executive Committee: continued

Name		Experiences		Qualifications
		Current Positions	Previous Positions	
6	Jacques Prost**	– Executive President of Wealth Management, CA Indosuez	– Executive Vice President of Crédit Agricole Corporate & Investment, France, 2013-2018 – Head of Project Finance at SFI, 2011-2013	– Bachelor of Finance, University of Paris, Dauphine, 1988

* Assigned as a member of the Executive Committee as of 09/05/2019

** Resigned as of 17/03/2019.

(B/2) Audit Committee*:

Name		Experiences		Qualifications
		Current Positions	Previous Positions	
1	Bader Al Issa	– CEO of Assila Investment Company	– CFO of Assila Investment Company – Investment Portfolio Manager at HSBC Saudi Arabia Limited, 2006-2008 – Financial and Marketing Analyst at SABIC America, Houston, Texas, 2002-2004 – Financial Analyst at JP Morgan, London, 2001-2002	– MBA, Rice University, 2006 – Bachelor of Economy, The University of Virginia, Charlottesville, Virginia, 2001
2	Mohammad Ali Ikhwan	– Retired	– Advisor to the Minister of Labor, 2010-2015 – Vice President of Savola Group for M & A, 2004-2009	– Ph.D. in Engineering, Economic Systems, Stanford University, 1985 – Master of Operations Research, Stanford University, 1976
3	Mohammed Al Subaie	– Retired	– General Auditor of Saudi Aramco, 2015-2018 – Various leadership positions at Saudi Aramco, 1993-2013 – Various positions at Eastern Province Water Directorate, 1988-1993	– Master's in Accounting, King Fahad University of Petroleum and Minerals, 1991 – Bachelor of Business Administration, Columbia College, 1981
4	Mamdouh Al Majed	– Managing Partner of Al Majed and Al Enzi Certified Public Accountants	– Finance Manager at Kingdom Holding Company, 2004-2010 – Financial Controller at Kingdom Holding Company, 1997-2003	– MBA, Leicester University, 2004 – Bachelor of Arts in Accounting, King Saud University, 1995
5	Ghazi Al Rawi	– Chairman & CEO of Valuegate Investments Company	– Managing Partner – Eastgate Capital Group 2006-2015 – Assistant Professor, Electrical Engineering – King Abdulaziz University 2004-2006 – Associate – McKinsey & Company 2003-2004 – Research Assistant – Stanford University 1999-2002	– Ph.D. in Electrical Engineering (EE), Communication, Stanford University, 2003 – M.S. in Management Science and Engineering (MS&E), Finance and Investment, Stanford University, 2001 – Master's in Electrical Engineering (EE), Communication, Stanford University, 1998 – Bachelor of Electrical Engineering (EE), Communication, King Abdulaziz University, 1994

* The reformation of the Audit Committee, which begins on 01/05/2019 and ends on 31/12/2021, was approved, and its tasks, work controls and remuneration of its members were determined, at the Extraordinary General Assembly meeting held on 26/08/1440 corresponding to 01/05/2019.

(B/3) Nominations and Remunerations Committee:

Name		Experiences		Qualifications
		Current Positions	Previous Positions	
1	Abdulrahman Al Rashed	– Member of Al Shura Council – Executive partner at Rashed Abdul Rahman Al Rashed & Sons Company – Chairman of the Board of Directors of Dammam Hotels Company Chairman of the Board of Directors of UNICOIL Universal Metal Coating Company		– Bachelor of Business Administration, Department of Finance, University of Seattle, 1985
2	Talal Al Maiman	– CEO of Kingdom Holding Company	– Chairman of the Board and CEO of Kingdom Real Estate Development, 2010-2017 – CEO of Kingdom Holding Company, 1996-2016 – Director of Computer Department at Saudi Arabian Monetary Authority, 1986-1996 – Director of Operations & Maintenance at Ministry of Interior, 1979-1986	– Master of Business Administration, University of Liverpool, UK, 2009 – Bachelor of Sciences in Electrical Engineering, University of Evansville Indiana, US, 1979 – Executive Management Program, Harvard University, 1986 – Diploma in Computer Science, Computer Sciences Corporation (CSC), Herndon, Virginia, 1981
3	Khaled Al Mutabagani	– Pediatric Surgery Consultant at New Jeddah Clinic Hospital	– Pediatric Surgery Consultant at King Faisal Specialist Hospital, Jeddah, 2000-2001 – Assistant Professor, Physiology at King Abdulaziz University, Jeddah, 2000-2002	– Ph.D. in Physiology, Ohio State University, 1999
4	Ghazi Al Rawi	– Chairman & CEO of Valuegate Investments Company	– Managing Partner – Eastgate Capital Group 2006-2015 – Assistant Professor, Electrical Engineering – King Abdulaziz University 2004-2006 – Associate – McKinsey & Company 2003-2004 – Research Assistant – Stanford University 1999-2002	– Ph.D. in Electrical Engineering (EE), Communication, Stanford University, 2003 – M.S. in Management Science and Engineering (MS&E), Finance and Investment, Stanford University, 2001 – Master's in Electrical Engineering (EE), Communication, Stanford University, 1998 – Bachelor of Electrical Engineering (EE), Communication, King Abdulaziz University, 1994
5	Mansoor Al-Mansoor	– Vice President for Finance and Operation at the King Abdullah Petroleum Studies and Research Center 2016	– Deputy Director General at HRDF, 2014-2016 – Vice President, HR & Admin of Arabian Pipes Company, 2006-2014	– Ph.D. in Applied Linguistics, Ball State University, 2004 – Master of Science in Human Resources, University of Central Missouri, USA, 1997

(1) Names, qualifications and experience of the Board, Board committees' members and Executive Management: continued

(B) Board Committees' Members: continued

(B/4) Board Risk Committee:

	Name	Experiences		Qualifications
		Current Positions	Previous Positions	
1	Abdullatif Al Othman	– Owner and CEO of Al-Othman Engineering Consultants	– Governor and Chairman of the Board of Directors, General Authority for Investment 2012-2016 – More than 35 years in the field of planning and managing oil and gas projects, financial management, investment, business and international relations development	– MBA, Sloan Fellows program, Massachusetts Institute of Technology, 1998 – Bachelor of Civil Engineering, King Fahad University of Petroleum and Minerals, 1979
2	Bader Al Issa	– CEO of Assila Investment Company	– CFO of Assila Investment Company – Investment Portfolio Manager at HSBC Saudi Arabia Limited, 2006-2008 – Financial and Marketing Analyst at SABIC America, Houston, Texas, 2002-2004 – Financial Analyst at JP Morgan, London, 2001-2002	– MBA, Rice University, 2006 – Bachelor of Economy, The University of Virginia, Charlottesville, Virginia, 2001
3	Khaled Al Omran	– General Manager of Daily Food Company	– 10 years in Retail – 2 years in Management Consulting	– Master's in Business Administration, IESE Business School, Spain, 2012 – Bachelor of Finance, King Fahad University of Petroleum and Minerals, 2006
4	Mohammed Al Kinani*	– Founder and CEO of V Consortium – Vice President & General Supervisor of Investment at KFUPM Endowment	– Teaching Assistant, Assistant Professor Finance, Chairman of Department of Finance and Economics, and Dean College of Industrial Management at King Fahad University of Petroleum and Minerals, 1997-2018	– Ph.D. in Finance, Oklahoma State University, 2006 – Master's in Finance, University of Colorado, Denver, 2001 – Bachelor of Finance, King Fahad University of Petroleum and Minerals, 1998
5	Vanessa Eastham Fisk*	– Manager of Anglo Gulf Trade Bank, UAE – Manager of ABC International Bank PLC, UK	– Chief Operating Officer of Standard Chartered PLC, Middle East, North Africa, 2010-2015 – Managing Director of Ingram Group, UAE, 2008-2009 – Chief Operating Officer and Chief Risk Officer at Barclays Bank PLC, Middle East and North Africa, 2006-2008	– Accountancy, Huddersfield Polytechnic, UK, 1990

* Appointed as a committee member as of 30/04/2019.

(B/5) Corporate Social Responsibility Committee:

	Name	Experiences		Qualifications
		Current Positions	Previous Positions	
1	Talal Al Maiman	– CEO of Kingdom Holding Company	– Chairman of the Board and CEO of Kingdom Real Estate Development, 2010-2017 – CEO of Kingdom Holding Company, 1996-2016 – Director of Computer Department at Saudi Arabian Monetary Authority, 1986-1996 – Director of Operations & Maintenance at Ministry of Interior, 1979-1986	– Master of Business Administration, University of Liverpool, UK, 2009 – Bachelor of Sciences in Electrical Engineering, University of Evansville Indiana, US, 1979 – Executive Management Program, Harvard University, 1986 – Diploma in Computer Science, Computer Sciences Corporation (CSC), Herndon, Virginia, 1981
2	Bader Al Issa	– CEO of Assila Investment Company	– CFO of Assila Investment Company – Investment Portfolio Manager at HSBC Saudi Arabia Limited, 2006-2008 – Financial and Marketing Analyst at SABIC America, Houston, Texas, 2002-2004 – Financial Analyst at JP Morgan, London, 2001-2002	– MBA, Rice University, 2006 – Bachelor of Economy, The University of Virginia, Charlottesville, Virginia, 2001
3	Rayan Fayez	– Managing Director and CEO of Banque Saudi Fransi	– CEO of Savola Group, 2016-2018 – Managing Director and Senior Country Officer at JPMorgan Chase N.A Riyadh Branch, 2013-2016 – CEO of JP Morgan Saudi Arabia Limited, 2012-2013 – CEO of Goldman Sachs, Saudi Arabia, 2009-2012 – Executive Director at Goldman Sachs International, London, 2007-2009	– Bachelor of Science in Mechanical Engineering, Massachusetts Institute of Technology (MIT), 2001

(B/6) Board Strategy Committee:

	Name	Experiences		Qualifications
		Current Positions	Previous Positions	
1	Talal Al Maiman	– CEO of Kingdom Holding Company	– Chairman of the Board and CEO of Kingdom Real Estate Development, 2010-2017 – CEO of Kingdom Holding Company, 1996-2016 – Director of Computer Department at Saudi Arabian Monetary Authority, 1986-1996 – Director of Operations & Maintenance at Ministry of Interior, 1979-1986	– Master of Business Administration, University of Liverpool, UK, 2009 – Bachelor of Sciences in Electrical Engineering, University of Evansville Indiana, US, 1979 – Executive Management Program, Harvard University, 1986 – Diploma in Computer Science, Computer Sciences Corporation (CSC), Herndon, Virginia, 1981
2	Bader Al Issa	– CEO of Assila Investment Company	– CFO of Assila Investment Company – Investment Portfolio Manager at HSBC Saudi Arabia Limited, 2006-2008 – Financial and Marketing Analyst at SABIC America, Houston, Texas, 2002-2004 – Financial Analyst at JP Morgan, London, 2001-2002	– MBA, Rice University, 2006 – Bachelor of Economy, The University of Virginia, Charlottesville, Virginia, 2001

(1) Names, qualifications and experience of the Board, Board committees' members and Executive Management: continued

(B) Board Committees' Members: continued

(B/6) Board Strategy Committee: continued

	Name	Experiences		Qualifications
		Current Positions	Previous Positions	
3	Rayan Fayez	– Managing Director and CEO of Banque Saudi Fransi	– CEO of Savola Group, 2016-2018 – Managing Director and Senior Country Officer at JPMorgan Chase N.A Riyadh Branch, 2013-2016 – CEO of JP Morgan Saudi Arabia Limited, 2012-2013 – CEO of Goldman Sachs, Saudi Arabia, 2009-2012 – Executive Director at Goldman Sachs International, London, 2007-2009	– Bachelor of Science in Mechanical Engineering, Massachusetts Institute of Technology (MIT), 2001
4	Khaled Al Omran	– General Manager of Daily Food Company	– 10 years in Retail – 2 years in Management Consulting	– Master's in Business Administration, IESE Business School, Spain, 2012 – Bachelor of Finance, King Fahad University of Petroleum and Minerals, 2006
5	Timothy Collins*	– Senior Fellow and Director of the Henry P. Belton Fellowship Program, Yale School of Management – Member at New York State Common Retirement Fund Investment Advisory Committee – Member at Yale Divinity School Advisory Board	– Director at RHJ International, 2004-2018 – Director at Gogo, Inc, 2013 – Director at Citigroup, Inc., 2009-2012 – Director at Weather Investments SpA, 2008-2011 – Director at 3W Power Holdings Ltd, 2009-2011 – Director at Commercial International Bank of Egypt, 2006-2009 – Director at RSC Holdings Inc., 2006-2009	– Honorary Doctorate of Humane Letters, DePauw University, 2004 – MBA in Public & Private Management, Yale University, 1982 – BA in Philosophy, DePauw University, 1978

* Appointed as a committee member as of 19/05/2019.

(C) Executive Management:

	Name	Current Position	Previous Position	Qualifications	Experiences
1	Rayan Fayez	Managing Director and Chief Executive Officer	Chief Executive Officer of Savola Group	Bachelor of Science in Mechanical Engineering, Massachusetts Institute of Technology (MIT), 2001	17 years of banking experience in several executive positions
2	Abdullah Al Khaleefah	Chief Financial Officer	Chief Financial Officer of AlRajhi Bank	Master of Accounting, University of Miami School of Business BS Accountancy, King Saud University	26 years of banking experience in banking sector
3	Mazin Al Tamimi	Head of Institutional Banking Group	Senior Executive Director at Banque Saudi Fransi	Bachelor of Computer Science, 1989	31 years of banking experience in various positions at the Bank
4	Mohammed Al Alsheikh	Head of Retail Banking Group	Head of Branch Network for Retail Banking at Al Rajhi Bank	Bachelor of Industrial Engineering, King Saud University, 2005	14 years' experience in Islamic and Retail Banking
5	Adel Mallawi	Chief Investment Officer	Head of Global Markets Group at Banque Saudi Fransi	Bachelor of Chemistry, 1993	25 years of experience in treasury, global markets and finance
6	Abdulaziz Al Mulhem	Regional Director for the Eastern Region	Credit Officer of Retail Banking, Regional Director at AlAwwal Bank	Bachelor of Business Administration, Indiana State University, 1983	35 years of experience in banking sector
7	Thamer Yousef	Chief Operating Officer	Head of Information Systems Department at SABB	Bachelor of Computer Engineering, King Saud University, 1994	24 years of experience in IT & Operations
8	May AlHoshan	Chief Human Capital Officer	Director of Human Resources at AlAwwal Bank	Master of Engineering, George Washington University, 2004	15 years of experience in Human Resources
9	Michael Cunningham	Chief Strategy & Digital Group Officer	Co-Founder & CEO at Clearly Executive Vice President and Head of Group Strategy & Innovation at Abu Dhabi Commercial Bank	Diploma of Business Administration, University of Durham	9 years of banking experience in banking sector
10	Abdulmohsen Al Rayes	Chief Audit Executive	Director of Internal Audit at Arab National Bank	Bachelor of Arabic Grammar, 1981	34 years of experience in the banking sector
11	Ravishanker Visvanathan	Chief Risk Officer	Head of Credit Risk Management – Riyad Bank	Bachelor of Business Administration, University of Pune, 1993	More than 30 years of experience in the financial sector
12	Abdulaziz Albani	Chief Compliance Officer	Director of AML/CFT, General Manager of the Compliance Group at Al Rajhi Bank	Master's in Business Administration, Al Yamamah University, 2018	22 years of experience in banking sector
13	Abdallah Al Shaikh	Head of Legal & Governance	Head of Legal Affairs and Secretary of the Board of Directors at Samba Financial Group	LL.M, Harvard Law School, 2008	15 years of legal experience in several positions in the financial sector
14	Ismail Al Orini	Corporate Secretary	Retail Banking Group, Relationship Manager at Samba Financial Group	Bachelor of Business Administration, Eastern Michigan University, 1990	28 years of experience in the banking sector

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

		Current			Previous		
	Member's name	Name of company in which the Board member is a member of its current Board of Directors or from its directors	Inside the Kingdom/ Outside the Kingdom	Legal Entity	Name of company in which the Board member is a member of its previous Board of Directors or from its directors	Inside the Kingdom/ Outside the Kingdom	Legal Entity
1	**Mazin Al Romaih**	Future Generation Investment Company	Inside the Kingdom	A Limited Liability Company	Saudi Fransi Capital	Inside the Kingdom	Closed Joint Stock Company
		Dr. Sulaiman Al Habib Medical Group	Inside the Kingdom	Closed Joint Stock Company	Capital Market Authority	Inside the Kingdom	Governmental Body
		Sada Company for Investment	Inside the Kingdom	A Limited Liability Company	Samba Capital & Investment Management Company	Inside the Kingdom	Joint Stock Company
		Local Content & Government Procurement Authority	Inside the Kingdom	Governmental Body	HSBC Saudi Arabia Limited	Inside the Kingdom	Closed Joint Stock Company
		Real Estate Development Fund	Inside the Kingdom	Governmental Body	Al Yammamh Steel Company	Inside the Kingdom	Closed Joint Stock Company
		–	–	–	Food Concepts Ltd.	Inside the Kingdom	A Limited Liability Company
		–	–	–	Alissa Holding group	Inside the Kingdom	Closed Joint Stock Company

		Current			Previous		
	Member's name	Name of company in which the Board member is a member of its current Board of Directors or from its directors	Inside the Kingdom/ Outside the Kingdom	Legal Entity	Name of company in which the Board member is a member of its previous Board of Directors or from its directors	Inside the Kingdom/ Outside the Kingdom	Legal Entity
2	**Talal Al Maiman**	Kingdom Holding company	Inside the Kingdom	Listed Joint Stock Company	Savola Group	Inside the Kingdom	Listed Joint Stock Company
		Kingdom Real Estate Development	Inside the Kingdom	Closed Joint Stock Company	SRMJ	Inside the Kingdom	Closed Joint Stock Company
		Der' alreayah Health Company	Inside the Kingdom	Closed Joint Stock Company	–	–	–
		Tasnee Company	Inside the Kingdom	Closed Joint Stock Company	–	–	–
		NAS Holding Company	Inside the Kingdom	Closed Joint Stock Company	–	–	–
		Trade Centre Company Limited	Inside the Kingdom	Limited Liability Company	–	–	–
		Real Estate Investment Company	Inside the Kingdom	Limited Liability Company	–	–	–
		Kingdom School Company limited	Inside the Kingdom	Limited Liability Company	–	–	–
		Kingdom Investment and Development Company	Inside the Kingdom	Closed Joint Stock Company	–	–	–
		Jeddah Economic Company	Inside the Kingdom	Limited Liability Company	–	–	–
		Saudi Fransi Capital	Inside the Kingdom	Closed Joint Stock Company	–	–	–

(2) Names of the companies inside and outside the Kingdom in which a Board member is a member of their current or previous Board member or manager: continued

		Current			Previous		
	Member's name	Name of company in which the Board member is a member of its current Board of Directors or from its directors	Inside the Kingdom/ Outside the Kingdom	Legal Entity	Name of company in which the Board member is a member of its previous Board of Directors or from its directors	Inside the Kingdom/ Outside the Kingdom	Legal Entity
3	**Abdulrahman Al Rashed**	Rashed Abdul Rahman Al Rashed & Sons Company	Inside the Kingdom	General Partnership	SAUDIA Saudi Airlines	Inside the Kingdom	Joint Stock Company
		Dhahran Techno Valley Company	Inside the Kingdom	Closed Joint Stock Company	Prince Sultan Rehabilitation Center, PSRC	Inside the Kingdom	Association
		Rashed Al Rashed & Sons Donaldson Company Ltd	Inside the Kingdom	A Limited Liability Company	Chamber of Commerce & Industry, Eastern Province	Inside the Kingdom	Governmental
		Beit Al Tawazun Company	Inside the Kingdom	A Limited Liability Company	–	–	–
		Al Awael Holding	Inside the Kingdom	A Limited Liability Company	–	–	–
		Company of Crystal Ice Factory	Inside the Kingdom	A Limited Liability Company	–	–	–
		ALYAMAMA Investment Company	Inside the Kingdom	Closed Joint Stock Company	–	–	–
		UNICOIL, Universal Metal Coating Company	Inside the Kingdom	Closed Joint Stock Company	–	–	–
		Dammam Hotels Company Ltd.	Inside the Kingdom	Closed Joint Stock Company	–	–	–
		Ettifaq Club	Inside the Kingdom	Sport Club	–	–	–
4	**Khaled Al Mutabagani**	Jeddah New National Hospital	Inside the Kingdom	A Limited Liability Company	King Faisal Specialist Hospital in Jeddah	Inside the Kingdom	Governmental
		–	–	–	King Abdulaziz University	Inside the Kingdom	Governmental

		Current			Previous		
	Member's name	Name of company in which the Board member is a member of its current Board of Directors or from its directors	Inside the Kingdom/ Outside the Kingdom	Legal Entity	Name of company in which the Board member is a member of its previous Board of Directors or from its directors	Inside the Kingdom/ Outside the Kingdom	Legal Entity
5	**Bader Al Issa**	Assila for Investment	Inside the Kingdom	Closed Joint Stock Company	Saudi Fransi Capital	Inside the Kingdom	Closed Joint Stock Company
		Savola Group	Inside the Kingdom	Listed Joint Stock Company	Kinan International for Real Estate Development Company	Inside the Kingdom	Closed Joint Stock Company
		United Sugar Company	Inside the Kingdom	Closed Joint Stock Company	Knowledge Economic City	Inside the Kingdom	Listed Joint Stock Company
		Afia International Company	Inside the Kingdom	Closed Joint Stock Company	Savola for Packaging	Inside the Kingdom	Closed Joint Stock Company
		Savola Foods	Inside the Kingdom	Closed Joint Stock Company	Al Aqiq for Real Estate Development	Inside the Kingdom	Closed Joint Stock Company
		Dur Hospitality Company	Inside the Kingdom	Listed Joint Stock Company	Sukoon International Company	Inside the Kingdom	Closed Joint Stock Company
		Panda Retail Company	Inside the Kingdom	Closed Joint Stock Company	–	–	–
		Almarai	Inside the Kingdom	Listed Joint Stock Company	–	–	–

(2) Names of the companies inside and outside the Kingdom in which a Board member is a member of their current or previous Board member or manager: continued

		Current			Previous		
	Member's name	Name of company in which the Board member is a member of its current Board of Directors or from its directors	Inside the Kingdom/ Outside the Kingdom	Legal Entity	Name of company in which the Board member is a member of its previous Board of Directors or from its directors	Inside the Kingdom/ Outside the Kingdom	Legal Entity
6	**Abdullatif Al Othman**	Al-Othman Engineering Consultants	Inside the Kingdom	Sole Proprietorship	Investment Company of KAUST endowment	Inside the Kingdom	Governmental
		Wahed	Outside the Kingdom	Joint Stock Company	Saudi Aramco Products Trading Company	Inside the Kingdom	Joint Stock Company
		Remaiyah	Inside the Kingdom	Closed Joint Stock Company	Wa'ed, established by Aramco to support small and medium enterprises	Inside the Kingdom	Joint Stock Company
		Olayan Group	Inside the Kingdom	Closed Joint Stock Company	Sadara Chemical Company, partnership between Saudi Aramco and The Dow Chemical Company	Inside the Kingdom	Joint Stock Company
		Investcorp	Outside the Kingdom	Joint Stock Company	Dussur, The Saudi Industrial Investments Company	Inside the Kingdom	Joint Stock Company
		General Authority for Competition	Inside the Kingdom	Governmental	General Investment Authority	Inside the Kingdom	Governmental
		Madeena Munawarah Development Authority	Inside the Kingdom	Governmental	–	–	–
		King Fahad University of Petroleum and Minerals	Inside the Kingdom	Governmental	–	–	–
		GCC Board Directors Institute	Outside the Kingdom	Nonprofit	–	–	–

		Current			Previous		
	Member's name	Name of company in which the Board member is a member of its current Board of Directors or from its directors	Inside the Kingdom/ Outside the Kingdom	Legal Entity	Name of company in which the Board member is a member of its previous Board of Directors or from its directors	Inside the Kingdom/ Outside the Kingdom	Legal Entity
7	**Ghazi Al Rawi**	Saudi Ports Authority	Inside the Kingdom	Governmental Authority	Saudi Fransi Capital	Inside the Kingdom	Closed Joint Stock Company
		Civil Aviation Holding	Inside the Kingdom	A Limited Liability Company	National Medical Care Company	Inside the Kingdom	Joint Stock Company
		Valuegate Investments Company	Inside the Kingdom	A Limited Liability Company	Sanabil Investment	Inside the Kingdom	Closed Joint Stock Company
		Green Oasis Hotel Company	Inside the Kingdom	A Limited Liability Company	Eastgate Capital Group	Outside the Kingdom	A Limited Liability Company
		Smart Health Solutions	Inside the Kingdom	A Limited Liability Company	L'azurde	Inside the Kingdom	Joint Stock Company
		Adaptive Spectrum & Signal Alignment, Inc	Outside the Kingdom	Closed Joint Stock Company	Tadrees Holding	Inside the Kingdom	Closed Joint Stock Company
		Valuegate International	Outside the Kingdom	A Limited Liability Company	SIGMA Pharmaceutical Industries	Outside the Kingdom	Closed Joint Stock Company
8	**Khaled Al Omran**	Daily Food Company	Inside the Kingdom	A Limited Liability Company	–	–	–
		Goldman Sachs Saudi Arabia	Inside the Kingdom	Closed Joint Stock Company	–	–	–

(2) Names of the companies inside and outside the Kingdom in which a Board member is a member of their current or previous Board member or manager: continued

		Current			Previous		
	Member's name	Name of company in which the Board member is a member of its current Board of Directors or from its directors	Inside the Kingdom/ Outside the Kingdom	Legal Entity	Name of company in which the Board member is a member of its previous Board of Directors or from its directors	Inside the Kingdom/ Outside the Kingdom	Legal Entity
9	**Timothy Collins***	SODIC	Outside the Kingdom	Joint Stock Company	Working America Education Fund Board of Directors	Outside the Kingdom	Establishment
		EFG Hermes	Outside the Kingdom	Joint Stock Company	Palm Hills Developments	Outside the Kingdom	Joint Stock Company
		McKinsey Advisory Council	Outside the Kingdom	Establishment	RHJ International	Outside the Kingdom	Closed Joint Stock Company
		AS Citadele Banka	Outside the Kingdom	Closed Joint Stock Company	Gogo, Inc.	Outside the Kingdom	Closed Joint Stock Company
		NEOM	Inside the Kingdom	Closed Joint Stock Company	Citigroup, Inc.	Outside the Kingdom	Joint Stock Company
		Henry Belton Fellowship Program, Yale School of Management	Outside the Kingdom	Establishment	Weather Investments SpA	Outside the Kingdom	Closed Joint Stock Company
		New York Common State Retirement Fund Investment Advisory Committee	Outside the Kingdom	Establishment	3W Power Holdings Ltd	Outside the Kingdom	Closed Joint Stock Company
		Yale Divinity School Advisory Board	Outside the Kingdom	Establishment	Commercial International Bank of Egypt	Outside the Kingdom	Joint Stock Company
		Yale School of Management Advisory Board	Outside the Kingdom	Establishment	RSC Holdings Inc.	Outside the Kingdom	Closed Joint Stock Company
		RA SIX Holdings LTD	Outside the Kingdom	Closed Joint Stock Company	–	–	–
		RA Mena Holdings	Outside the Kingdom	Closed Joint Stock Company	–	–	–
		RA Limited I Holdings LTD	Outside the Kingdom	Closed Joint Stock Company	–	–	–

		Current			Previous		
	Member's name	Name of company in which the Board member is a member of its current Board of Directors or from its directors	Inside the Kingdom/ Outside the Kingdom	Legal Entity	Name of company in which the Board member is a member of its previous Board of Directors or from its directors	Inside the Kingdom/ Outside the Kingdom	Legal Entity
10	**Rayan Fayez**	Saudi Fransi Capital	Inside the Kingdom	Closed Joint Stock Company	Savola Group	Inside the Kingdom	Listed Joint Stock Company
		Saudi Agricultural & Livestock Investment Company (SALIC)***	Inside the Kingdom	Closed Joint Stock Company	Kinan International Real Estate Development Company	Inside the Kingdom	A Closed Joint Stock Company
		Hassana Investment Company	Inside the Kingdom	Closed Joint Stock Company	Knowledge Economic City	Inside the Kingdom	Listed Joint Stock Company
		Saudi Stock Exchange (Tadawul)****	Inside the Kingdom	Closed Joint Stock Company	Almarai	Inside the Kingdom	Listed Joint Stock Company
		Human Resources Development Fund (HRDF)	Inside the Kingdom	Governmental	Herfy for Food Services	Inside the Kingdom	Listed Joint Stock Company
		King Salman Park	Inside the Kingdom	Governmental	JP Morgan Chase NA, Riyadh Branch	Inside the Kingdom	Closed Joint Stock Company
		Sports Boulevard	Inside the Kingdom	Governmental	JP Morgan Saudi Arabia Limited	Inside the Kingdom	Limited Liability Company
		Al Ula Company for Development	Inside the Kingdom	Closed Joint Stock Company	Savola for Foods	Inside the Kingdom	Closed Joint Stock Company
		–	–	–	Panda Retail Company	Inside the kingdom	Closed Joint Stock Company
		–	–	–	Goldman Sachs, Saudi Arabia	Inside the Kingdom	Closed Joint Stock Company
11	**Jacques Prost****	Wealth Management, CA Indosuez	Outside the Kingdom	Joint Stock Company	Agricole Corporate & Investment, France	Outside the Kingdom	Joint Stock Company
		Credit Agricole Payment Service	Outside the Kingdom	Joint Stock Company	FIA NET Europe	Outside the Kingdom	Joint Stock Company
		CA Indosuez, Wealth Management, France	Outside the Kingdom	Joint Stock Company	Credit Agricole Indosuez, Milan, Italy	Outside the Kingdom	Joint Stock Company
		CA Indosuez, Wealth Management, Switzerland	Outside the Kingdom	Joint Stock Company	CREDIT AGRICOLE SUISSE	Outside the Kingdom	Joint Stock Company
					CREDIT AGRICOLE CIB ZAO RUSSIA	Outside the Kingdom	Joint Stock Company
					CREDIT AGRICOLE CIB CHINA	Outside the Kingdom	Joint Stock Company
					IMMOFI CACIB	Outside the Kingdom	Joint Stock Company
					CREDIT AGRICOLE IMMOBILIER	Outside the Kingdom	Joint Stock Company

* Appointed as a Board of Directors member as of 23/04/2019.
** Resigned as of 17/03/2019.
*** No longer on the Board as of October 2019
**** No longer on the Board as of January 2019

(3) Composition of the Board of Directors and the classification of its members:

	Member's name	Position	Membership classification
1	**Mazin Al Romaih**	Chairman of the Board	Non-executive
2	**Talal Al Maiman**	Vice Chairman of the Board	Non-executive
3	**Abdulrahman Al Rashed**	Member	Independent
4	**Khaled Al Mutabagani**	Member	Non-executive
5	**Bader Al Issa**	Member	Independent
6	**Abdullatif Al Othman**	Member	Independent
7	**Ghazi Al Rawi**	Member	Independent
8	**Khaled Al Omran**	Member	Independent
9	**Rayan Fayez**	Member	Executive
10	**Timothy Collins***	Member	Independent
11	**Jacques Prost****	Member	Non-executive

* Appointed as a Board of Directors member as of 23/04/2019.
** Resigned as of 17/03/2019.

(4) A brief description of the competencies and duties of the committees, indicating their names, names of their chairmen, names of their members, the number of their respective meetings, dates of those meetings and the members' attendance details of each meeting:

The Board of Directors of Banque Saudi Fransi has formed the following six committees for a three-year period from 01/01/2019 to 31/12/2021: the Executive Committee, the Audit Committee, the Nominations and Remunerations Committee, the Board Risk Committee, the Corporate Social Responsibility Committee and the Board Strategy Committee. These committees have powers under their own regulations. The details of these committees are as follows:

(4/A) Executive Committee:

The Committee consists of five members and held six meetings during 2019. The following are the members of the Committee and its meetings during the year:

	Name	Type of membership	Dates of meetings					
			First meeting 04/02/2019	Second meeting 18/04/2019	Third meeting 22/05/2019	Forth meeting 12/09/2019	Fifth meeting 05/11/2019	Sixth meeting 02/12/2019
1	**Mazin Al Romaih**	Chairman	✓	✓	✓	✓	✓	✓
2	**Abdulrahman Al Rashed**	Member	✓	✓	x	✓	✓	✓
3	**Talal Al Maiman**	Member	✓	✓	✓	✓	✓	✓
4	**Rayan Fayez**	Member	✓	✓	✓	✓	✓	✓
5	**Timothy Collins***	Member	–	–	✓	x	✓	x
6	**Jacques Prost****	Member	x	–	–	–	–	–

* Appointed as a member in the Executive Committee as of 09/05/2019.
** Resigned as of 17/03/2019.

The Committee's main responsibilities include but are not limited to the following:

- Approve related party transactions as per the 'Delegation of Authority Manual' and the 'Related Party Transaction Policy';
- Approve loans and credit facilities to Banque Saudi Fransi's customers, as per the Bank's 'Delegation of Authority Manual', in line with SAMA rules and regulations for granting loans and credit facilities;
- Review periodic management report activities and reports on the execution and completion of the Bank's major projects;
- Review the annual budgets, plans and material differences in the budget (if any) before submitting them to the Board for review; and
- Review and make recommendations to the Board with respect to Banque Saudi Fransi's overall strategy and business plan.

(4/B) Audit Committee:

The Committee consists of five members, is presided by an independent member of the Board and most of the members are from outside the Board. The members of the Audit Committee have high academic qualifications and high professional experiences, including knowledge of accounting standards and the ability to analyse financial reports, in addition to understanding the laws and regulations issued by the competent authorities. In the meeting held on 26/08/1440 corresponding to 01/05/2019, the Extraordinary General Assembly agreed to reconstitute the Audit Committee that starts on 01/05/2019 and ends on 31/12/2021 and specifies its duties, work controls and members' remunerations. The Audit Committee held five meetings during 2019. The following are the members of the Committee and its meetings during 2019:

	Name	Type of membership	Dates of meetings				
			First meeting 28/01/2019	Second meeting 28/04/2019	Third meeting 24/07/2019	Forth meeting 30/10/2019	Fifth meeting 15/12/2019
1	**Bader Al Issa**	Chairman	✓	✓	✓	✓	✓
2	**Mohammad Ikhwan** (from outside the Board)	Member	✓	✓	✓	✓	✓
3	**Mohammed Al Subaie** (from outside the Board)	Member	✓	✓	✓	✓	✓
4	**Mamdouh Al Majed** (from outside the Board)	Member	✓	✓	✓	✓	✓
5	**Ghazi Al Rawi**	Member	✓	✓	✓	✓	✓

The Audit Committee's members assist the Bank's Board of Directors in fulfilling its oversight responsibility relating to the following:

- Shareholders, potential shareholders, the investment community and others relating to the financial reporting process;
- The system of Internal Controls;
- The audit process;
- The Bank's financial statements;
- Related parties transactions and conflict of interests' cases; and
- The Bank's process for monitoring compliance with applicable laws and regulations and the Code of Conduct.

(4/C) Nominations and Remunerations Committee:

The Committee is composed of five members of the Board of Directors and other specialists. The Committee held five meetings during 2019. The following are the members of the Committee and its meetings during the year:

	Name	Type of membership	Dates of meetings				
			First meeting 05/02/2019	Second meeting 23/04/2019	Third meeting 11/09/2019	Forth meeting 11/12/2019	Fifth meeting 23/12/2019
1	**Abdulrahman Al Rashed**	Chairman	✓	✓	✓	✓	✓
2	**Khaled Al Mutabagani**	Member	✓	x	✓	x	x
3	**Mansoor Al Mansoor** (from outside the Board)	Member	✓	✓	✓	✓	✓
4	**Talal Al Maiman**	Member	✓	✓	✓	✓	✓
5	**Ghazi Al Rawi**	Member	✓	✓	✓	✓	✓

Functions of the Committee include but are not limited to the following:

- Preparing a clear policy for the remunerations of the Board members, the Board committees' members and the Executive Management, presenting such policy to the Board in preparation for approval by the General Assembly, ensuring that such policy follows standards that are linked to performance, and disclosing and ensuring the implementation of such policy;
- Evaluating the practices under which remunerations are disbursed for potential revenues, of which their timing or likelihood of occurrence remain uncertain;
- Making recommendations to the Board on the level and structure of compensation of key executives of the Bank whose appointment is subject to obtaining 'No Objection' from SAMA;
- Determining the bonus pool based on the risk-adjusted profit of the Bank for payment of performance bonus;
- Review the compliance of the remunerations and compensation policy with the relevant rules and the principles and standards of the Financial Stability Board (FSB); and
- Determine the points of strengths and weaknesses of the Board of Directors and the Board committees through performance assessments and recommend remedies that are compatible with Banque Saudi Fransi's interests.

(4) A brief description of the competencies and duties of the committees, indicating their names, names of their chairmen, names of their members, the number of their respective meetings, dates of those meetings and the members' attendance details of each meeting: continued

(4/D) Board Risk Committee:

The Board Risk Committee consists of five members, comprised of members of the Board of Directors and other specialists. The committee held four meetings during 2019. The following are the members and meetings of the Committee during the year:

	Name	Type of membership	Date of meetings			
			First meeting 13/02/2019	Second meeting 23/04/2019	Third meeting 11/09/2019	Forth meeting 12/12/2019
1	**Abdullatif Al Othman**	Chairman	✓	✓	✓	✓
2	**Bader Al Issa**	Member	✓	✓	✓	✓
3	**Khaled Al Omran**	Member	✓	✓	✓	✓
4	**Mohammad Al Kinani*** (from outside the Board)	Member	–	–	✓	✓
5	**Vanessa Fisk*** (from outside the Board)	Member	–	–	✓	✓

* Appointed as a member of the Committee as of 30/04/2019.

Major duties and responsibilities of the Board Risk Committee include but are not limited to the following:
- Require and review development strategies and comprehensive policies for risk management that are consistent with the nature and volume of the Bank's activities;
- Ensure efficient operation of these policies, and regularly review and update the policies based on the Bank's internal and external changing factors;
- Review the adequacy of the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP);
- Review the adequacy of the Bank's risk management system along with management's assessment of the effectiveness of the systems and mechanisms used to determine and monitor the risks that threaten the Bank in order to identify areas of inadequacy therein in order to maintain the risk register;
- Review the adequacy of the Bank's risk intelligence levels, in terms of gathering information about risks and conducting analysis and evaluation of risks. The results should be utilised for the Bank's competitive advantage;
- Require establishment of bank-wide risk measurement methodologies for quantifying risks;
- Require assessment and review of Credit Risk Management process;
- Provide recommendations on the formulation of the Credit Policy of the Bank, particularly on credit risk related issues including; setting standards for presentation of credit proposals, financial covenants, rating standards and benchmarks; and
- When required, provide recommendations to the Executive Committee on matters relating to delegation of credit approving powers, prudential limits on large credit exposures, standards for loan collateral, portfolio management, loan review mechanism, risk concentrations, risk monitoring and evaluation, pricing of loans and provisioning.

(4/E) Corporate Social Responsibility Committee:

The Board of Directors of Banque Saudi Fransi is keen to support the largest possible segment of society in all fields. The Committee consists of three members. The Committee held one meeting in 2019. The Committee's members and the meeting attendance record during 2019 are as follows:

	Name	Type of membership	Date of meeting
			03/09/2019
1	**Talal Al Maiman**	Chairman	✓
2	**Bader Al Issa**	Member	✓
3	**Rayan Fayez**	Member	✓

The tasks of the Corporate Social Responsibility Committee include but are not limited to the following:
- Review, evaluate and oversee Banque Saudi Fransi's bank-wide charitable giving strategy and funding guidelines;
- Review requests for funding from eligible community and charitable organisations;
- Establish and review social contribution policies and programmes;
- Oversee and ensure proper implementation of social contribution compliance systems; and
- Review annual budgets with respect to social contribution programmes.

(4/F) Board Strategy Committee:

The Board Strategy Committee consists of five members of the Board of Directors. The Committee held nine meetings during 2019. The Committee's members and meetings during the year are as follow:

	Name	Type of membership	Date of meetings								
			First Meeting 14/02/2019	Second Meeting 18/03/2019	Third Meeting 23/04/2019	Forth Meeting 29/05/2019	Fifth Meeting 25/06/2019	Sixth Meeting 18/07/2019	Seventh Meeting 23/10/2019	Eighth Meeting 18/11/2019	Ninth Meeting 10/12/2019
1	**Talal Al Maiman**	Chairman	✓	✓	✓	✓	✓	✓	✓	✓	✓
2	**Bader Al Issa**	Member	✓	✓	✓	✓	✓	✓	✓	✓	✓
3	**Khaled Al Omran**	Member	✓	✓	✓	✓	✓	✓	✓	✓	✓
4	**Rayan Fayez**	Member	–	✓	✓	✓	✓	✓	✓	✓	✓
5	**Timothy Collins***	Member	–	–	–	✓	✓	✓	✓	✓	x

* Appointed as member of the Board Strategy Committee as of 19/05/2019.

Major duties and responsibilities of the Board Strategy Committee include but are not limited to the following:
- Review and evaluate all recommendations from the Strategy Steering Committee against the strategic direction of the Board;
- Critique said recommendations to ensure they fit with the strategic direction of the Board;
- Provide recommendations to the Board on Strategy related matters; and
- Monitor and suggest remedial action during the first year of implementation.

(5) The means used by the Board of Directors to assess its performance, the performance of its committees and members and the external body which conducted the assessment and its relationship with the Bank, if any:

The Board of Directors of the Bank evaluates its performance and the performance of its committees and members separately on an annual basis and in addition, at the end of the Board's session (each three years), assigns a specialised external body to conduct a comprehensive assessment of the performance of the Board, its committees and members.

For the year of 2019, an internal assessment has been conducted for the Board, its members and committees using key performance indicators linked to the extent to which the strategic objectives of the Bank have been achieved, the quality of the risk management and the efficiency of the internal control systems. The assessment also included the skills and experiences of the Board, as well as the mechanisms of the Board's activities in general.

(6) Disclosure of the remuneration of the Board members and Executive Management as stated the regulations:

Members of the Board of Directors shall receive a certain amount of money as a remuneration for each member in accordance with his performance and the number of meetings he attends, as per the recommendations of the Nominations and Remuneration Committee according to Companies Law and the laws and controls issued by the Capital Market Authority and the Saudi Arabian Monetary Authority – emphasising on the absence of any differences between the approved remunerations and what has been approved by the Board of Directors based on the recommendations of the Nominations and Remuneration Committee. In regard to Executive Management remunerations, they are determined based on performance criteria and approved by the Nominations and Remuneration Committee. Remunerations and compensations of the Board of Directors, committees' members and Executive Management are as follows:

(6) Disclosure of the remuneration of the Board members and Executive Management as stated the regulations: continued

(6/A) The Board's members remunerations:

		Board members remuneration (in thousands of Saudi Riyals)															
		Fixed Remunerations							Variable Remunerations								
		Certain amount	Allowance for attending Board's sessions	Total for attending committees' sessions	Benefits in kinds	A statement of what members of the Board have received as workers, administrative or as a return for technical, administrative or consulting work	The remuneration of the Chairman of the Board, the Managing Director or the Secretary if he is a member	Total	Percentage of profits	Periodic remunerations	Short-term incentive plans	Long-term incentive plan	Granted shares (the value must be inserted)	Total	Leaving indemnity	Sum total	Expenses allowances
First: Independent members:																	
1	Abdulrahman Al Rashed	420	6	30	–	–	–	456	–	–	–	–	–	–	–	456	–
2	Bader Al Issa	420	15	57	–	–	–	492	–	–	–	–	–	–	–	492	–
3	Abdullatif Al Othman	420	15	12	–	–	–	447	–	–	–	–	–	–	–	447	–
4	Ghazi Al Rawi	420	15	30	–	–	–	465	–	–	–	–	–	–	–	465	–
5	Khaled Al Omran	420	15	39	–	–	–	474	–	–	–	–	–	–	–	474	–
6	Timothy Collins*	290	12	21	–	–	–	323	–	–	–	–	–	–	–	323	–
Total		2,390	78	189	–	–	–	2,657	–	–	–	–	–	–	–	2,657	–
Second: Non-executive members:																	
1	Mazin Al Romaih	–	15	18	–	–	3,750	3,783	–	–	–	–	–	–	–	3,783	–
2	Talal Al Maiman	420	15	63	–	–	–	498	–	–	–	–	–	–	–	498	–
3	Khaled Al Mutabagani	420	12	6	–	–	–	438	–	–	–	–	–	–	–	438	–
4	Jacques Prost**	86	3	–	–	–	–	89	–	–	–	–	–	–	–	89	–
Total		926	45	87	–	–	3,750	4,808	–	–	–	–	–	–	–	4,808	–
Third: Executive members:																	
1	Rayan Fayez	420	15	48	–	–	–	483	–	–	–	–	–	–	–	483	–
Total		420	15	48	–	–	–	483	–	–	–	–	–	–	–	483	–

* Appointed as a Board member as of 23/04/2019.
** Resigned as of 17/03/2019.

(6/B) Committees' members remunerations:

		Committees' members remunerations (in thousands of Saudi Riyals)			
		Fixed remunerations (except attending sessions allowance)	Allowance for attending sessions	Total	Notes
Audit Committee members					
1	Bader Al Issa	–	15	15	
2	Mohammad Ikhwan	200	15	215	
3	Mohammed Al Subaie	200	15	215	
4	Mamdouh Al Majed	200	15	215	
5	Ghazi Al Rawi	–	15	15	
Total		600	75	675	
Nomination and Remuneration Committee members					
1	Abdulrahman Al Rashed	–	15	15	
2	Mansoor Al Mansoor	200	15	215	
3	Talal Al Maiman	–	15	15	
4	Ghazi Al Rawi	–	15	15	
5	Khaled Al Mutabagani	–	6	6	
Total		200	66	266	
Board Risk Committee members					
1	Abdullatif Al Othman	–	12	12	
2	Bader Alissa	–	12	12	
3	Khaled Al Omran	–	12	12	
4	Mohammed Al Kinani*	135	6	141	
5	Vanessa Fisk*	135	6	141	
Total		270	48	318	
Executive Committee members					
1	Mazin Al Romaih	–	18	18	
2	Abdulrahman Al Rashed	–	15	15	
3	Talal Al Maiman	–	18	18	
4	Rayan Fayez	–	18	18	
5	Timothy Collins**	–	6	6	
Total			75	75	
Social Responsibility Committee members					
1	Talal Al Maiman	–	3	3	
2	Bader Al Issa	–	3	3	
3	Rayan Fayez	–	3	3	
Total			9	9	
Board Strategy Committee members					
1	Talal Al Maiman	–	27	27	
2	Bader Al Issa	–	27	27	
3	Rayan Fayez	–	27	27	
4	Khaled Al Omran	–	27	27	
5	Timothy Collins***	–	15	15	
Total			123	123	

* Appointed as a member of the Board Risk Committee as of 30/04/2019
** Appointed as a member of the Executive Committee as of 09/05/2019
*** Appointed as a member of the Board Strategy Committee as of 19/05/2019

(6) Disclosure of the remuneration of the Board members and Executive Management as stated the regulations: continued

(6/C) Senior Executives remunerations:

Remunerations of five Senior Executives, including CEO and CFO (in thousands of Saudi Riyals)												
Fixed Remunerations				Variable Remunerations						Indemnity	Total Executives' remuneration for the Board, if any	Aggregate
Salaries	Allowances	In-kind benefits	Total	Periodic Remunerations	Earnings	Short-term incentive plans	Long-term incentive plans	*Shares awarded (value entered)	Total			
10,964	6,230	346	17,540	–	–	12,545	–	5,600	18,145	–	474	36,159

Remunerations of Senior Executives whose appointment requires obtaining no objection of the Saudi Arabian Monetary Authority (in thousands of Saudi Riyals)												
Fixed Remunerations				Variable Remunerations						Indemnity	Total Executives' remuneration for the Board, if any	Aggregate
Salaries	Allowances	In-kind benefits	Total	Periodic Remunerations	Earnings	Short-term incentive plans	Long-term incentive plans	*Shares awarded (value entered)	Total			
20,071	10,444	633	31,148	–	–	30,301	–	14,400	44,701	0	474	76,323

* SAR Value of Thrive Shares awarded in 2019.

(7) Any punishment, penalty, precautionary procedure or preventive measure imposed on the Bank by the Authority or any other supervisory, regulatory or judiciary authority, describing the reasons for non-compliance, the imposing authority and the measures undertaken to remedy and avoid such non-compliance in the future:

A. Penal Decisions of the Saudi Arabian Monetary Authority:

Subject of the violation	2018		2019		Ways to treat and avoid them in the future
	Number of Penal Decisions	Total amount of financial penalties (in Saudi Riyals)	Number of Penal Decisions	Total amount of financial penalties (in Saudi Riyals)	
Violation of SAMA's supervisory instructions	6	810,000	8	3,570,000	The level of control has been increased and the procedures has been improved to ensure compliance with instructions issued by regulatory bodies to ensure that such violations are not repeated
Violation of SAMA's instructions for protecting customers	3	500,000	None		
Violation of SAMA's instructions regarding the performance level of the ATMs and point of sale devices	None		None		
Violation of SAMA's instructions for due diligence in the fight against money laundering and financing of terrorism	None		None		
Total	**9**	**1,310,000**	**8**	**3,570,000**	

B. Other Penal Decisions:

Penalty/Sanction/Precautions/ Restriction	Reasons for the violation	Violating Body	Ways to treat and avoid them in the future
SAR 33,750 (Penalty)	Service suspension due to unplanned outage	SADAD Payment Company	Re-engineer the controls and process to ensure more effective pro-active measures

(8) Results of the annual review of the effectiveness of the internal control procedures of the Bank and the opinion of the Audit Committee with respect to the adequacy of Bank's internal control system:

A. Internal Control Framework (ICF):

In view of the importance of the internal controls environment to Banque Saudi Fransi, the Board of Directors has taken responsibility for ensuring that the essential policies and procedures in the Bank are designed to provide effective internal controls to manage risks within the agreed risk appetite. Accordingly, it has adopted an integrated framework for internal controls to provide reasonable assurance on the effectiveness and efficiency of controls within the Bank.

The Executive Management at Banque Saudi Fransi is responsible for validating the application and reviewing the effectiveness of the internal control environment, in line with the directives of the Saudi Arabian Monetary Authority (SAMA) and as specified in the internal control framework approved by the Board of Directors. The Internal Control Framework (ICF) is based on the model of 'Three Lines of Defense' in the Management and Control of risk. It defines the roles and responsibilities of the Board of Directors and the Board committees to support in the process of monitoring and mitigating risks associated with strategy, financial performance, technology, asset and liability management, credit, operations, legal affairs, organisational affairs and information security.

Undoubtedly, all Bank divisions are exerting their best efforts to improve the effectiveness and efficiency of the internal controls environment through continuous reviews, coordinated and integrated procedures and corrective actions in order to avoid and correct any control deficiencies. Senior Executive Managers – Heads of Departments (the first line of defense), are assigned the responsibility of supervising the implementation process of the corrective action plans related to the identified gaps as reported by all control functions (the second line of defense) such as Compliance, Risk Management, Human Resources and Finance. Internal Audit (the third line of defense) provides a reasonable and comprehensive assurance, based on the highest level of independence and objectivity, on the effectiveness of governance, risk management and internal controls, including the approaches in which the first and second lines of defense apply to achieve risk management and control objectives. Moreover, the Board of Directors are provided with periodic reports that clarifies the level of effectiveness of the internal control environment.

B. Internal Audit Division (IAD):

The responsibilities of the 'Internal Audit Division' are established and defined by the Board Audit Committee, whose role is based on adding value to improve the Bank's operations and providing independent and objective assurance to Senior Management and the Board of Directors through the Board Audit Committee. In addition, IAD provides advisory services and has adopted a Quality Assurance & Improvement Program (QAIP) that covers all activities within the Internal Audit Division.

To ensure Internal Audit's independency, the Chief Internal Auditor is assigned to manage the Internal Audit Division, reports functionally to the Board Audit Committee and administratively to the Managing Director and CEO. The Internal Audit Division has full and unrestricted access to all the Bank's systems, records, physical assets and to all involved employees; however, is subject to strict responsibility for the protection and confidentiality of records and information.

The Internal Audit Division performs its work in accordance with a risk-based audit methodology, following the rules and regulations issued by the legislative and regulatory bodies in the Kingdom of Saudi Arabia and The International Professional Practices Framework (IPPF) issued by The Institute of Internal Auditors (IIA). Hence, Internal Audit performs field visits to examine and evaluate the effectiveness and efficiency of risk management, internal controls, governance and other activities in the Bank, in addition to assessing the quality of performance while exercising their responsibilities towards achieving the Bank's strategic goals and objectives. Moreover, the Internal Audit Division submits the final reports to the relevant departments and Senior Management, where the audit observations are discussed, and corrective actions and respective target dates of implementation are agreed.

Internal Audit provides a quarterly activities report to the Audit Committee, who in turn meet with Senior Management to ensure their commitment to closing all reported issues on the agreed target dates.

C. Compliance Group:

Banque Saudi Fransi has established a fully resourced Compliance Group. The Compliance Group at Banque Saudi Fransi has the full support of the Board of Directors, the Audit Committee and Senior Executive Management to carry out its activities effectively and efficiently. The Compliance Group submits its reports to the Audit Committee (oversees the effectiveness of the system for monitoring compliance with laws and regulations). The Compliance Group carries out compliance assessments, reviews, monitoring and reporting on non-compliant matters. In addition to this, the Compliance Group performs monitoring and reporting of suspicious activities relating to money laundering and terrorist financing. The Compliance Group ensures timely communication of regulatory directives to all related entities within Banque Saudi Fransi and provides necessary guidance and monitors the desired implementation. Also, it contributes significantly in submission of the regulatory reports to the banking regulator. The Compliance Group organises compliance trainings for all the Bank staff and works towards enhanced compliance awareness with all business lines, support and control functions of Banque Saudi Fransi. The Compliance Group works to maintaining good relations with the regulatory authorities of the banking sector. The work of the Compliance Group is reviewed periodically and independently by the Bank's Internal Audit Group and banking regulator.

(8) Results of the annual review of the effectiveness of the internal control procedures of the Bank and the opinion of the Audit Committee with respect to the adequacy of Bank's internal control system: continued

D. Risk Management Group:

The key function of the Risk Management Group is to effectively oversee internal control at the Bank level, thus contributing to the Bank's strategic directions, which includes identifying, reducing, controlling and reporting all types of risks, including behavioural risks.

In this regard, the Risk Management Group works closely with all the Bank's internal stakeholders to ensure an appropriate control system that operates effectively and continuously. Based on the nature of the continuous development of banking services, the Risk Management Group continuously seeks to close gaps, address risks and strengthen the internal control system.

E. Results of reviewing the effectiveness of internal controls:

The Audit Committee reviews the reports related to the Bank's internal control, mainly reports issued by the Internal Audit, Risk Management and Compliance departments. Moreover, meetings are conducted with the Bank's division heads, through Internal Audit, to discuss matters regarding their divisions' performance, outstanding audit observations and the current progress in applying respective corrective actions. In addition, the results of any newly published and/or amended instructions issued by the legislative and regulatory bodies, amendments to the accounting policies and International Financial Reporting Standards (IFRS) are also being discussed during the Audit Committee meetings, either with the bank officials and/or with the external auditors, to ensure their application. Additionally, the Audit Committee updates the Board of Directors on a quarterly basis, on the effectiveness and efficiency of the Bank's internal controls and controls adopted to remedy any outstanding issues.

Based on the aforementioned, the current control environment and the annual reviews on the efficiency and effectiveness of control tools, the Audit Committee believes that the controls and procedures that constitutes the current Internal Control Framework are 'sufficient'. The Internal Control Framework is continuously monitored and updated in order to manage any changes or developments that may affect the work environment.

(9) Details of the Bank's social contributions:

Since Banque Saudi Fransi's inception to today, our commitment to operating with integrity and providing innovative ideas are central elements of the Bank's culture and are reflected across our businesses. By enabling businesses and aspirations, we help create good jobs, support local communities and, ultimately, secure the future of people across the Kingdom.

Banque Saudi Fransi considers corporate social responsibility a fundamental value. This is reinforced by the Bank's commitment and sense of national duty to advance development, develop social and economic growth and contribute to aiding the people of this country by supporting social and charitable activities and programmes, and achieving the Saudi Vision 2030.

During the year, the Bank led or engaged in a wide range of charitable and social development initiatives and awareness campaigns, from food and clothing distribution to housing rehabilitation. On a more strategic level, the Bank participated in the inaugural Riyadh International Humanitarian Forum, a global symposium under the patronage of the Custodian of the Two Holy Mosques, King Salman bin Abdulaziz Al Saud, that aims to deliver new ways of dealing with changing global humanitarian needs.

(10) A list of the dates of the General Assembly meetings held during the last fiscal year and the names of the Board members who attended them:

	Name	Attendance Record	
		First Assembly Meeting 01/05/2019	Second Assembly Meeting 12/12/2019
1	Mazin Al Romaih (Chairman of the Executive Committee)	✓	✓
2	Talal Al Maiman (Chairman of the Corporate Social Responsibility Committee and Board Strategy Committee)	✓	✓
3	Abdulrahman Al Rashed (Chairman of the Nomination and Remuneration Committee)	✓	X
4	Khaled Al Mutabagani	✓	X
5	Bader Al Issa (Chairman of the Audit Committee)	✓	✓
6	Abdullatif Al Othman (Chairman of the Board Risk Committee)	✓	✓
7	Ghazi Al Rawi	✓	✓
8	Khaled Al Omran	✓	✓
9	Rayan Fayez	✓	✓
10	Timothy Collins*	X	✓

* Appointed as a Board member as of 23/04/2019.

(11) A description of the main scope of business of the Bank and its affiliates and a statement showing each activity and how it affects the Bank businesses and results:

The main activities of the Bank are as follows:

a. **Retail Banking** – includes on-demand accounts for customers of private enterprises, overdrafts, loans, saving accounts, deposits, credit cards, debit cards, consumer loans, some Forex products and car lease.
b. **Corporate Banking** – includes on-demand accounts for customers of companies and medium enterprises, deposits, overdrafts, loans and other credit facilities and financial derivatives.
c. **Treasury** – includes treasury services, trading activities, investment securities, capital markets, bank financing operations and financial derivatives products.
d. **Brokerage and Investment Banking** – includes investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities, retail investment products, corporate finance, international and domestic brokerage services and insurance.

The impact of these major activities on the Bank's size and contribution to the results is as follows:

Activity type	Net income before Zakat and income tax (in thousands of Saudi Riyals)	Percentage
Retail Banking	502,576	14%
Corporate Banking	1,742,092	48%
Treasury	1,261,015	35%
Brokerage and Investment Banking	113,459	3%
Total	3,619,142	100%

(11) A description of the main scope of business of the Bank and its affiliates and a statement showing each activity and how it affects the Bank businesses and results: continued

The main activities of subsidiaries and their impact on the Bank's business volume and its contribution to the results are as follows:

Subsidiary	Activity	Net income before Zakat and income tax (in thousands of Saudi Riyals)	Percentage
Saudi Fransi Capital	Acts as principal and agent, and undertake, manage, arrange, advise and file in securities trading	113,459	3.13%
Saudi Fransi for Finance Leasing	Leasing and financing of vehicle assets (Cars, motorcycles, trucks) and heavy equipment and machinery, in addition to the purchase and registration of these assets	87,230	2.41%
Saudi Fransi Insurance Agency Co.	Insurance brokerage services	(486)	-0.01%

As for Sakan Real Estate Financing Company its engaged in acquisition of real estate properties and land, providing finance for real estate properties and land through Ijarah and Murabaha, and carry out other investments. Its contribution to the results is very small (less than 0.005%).

(12) A description of the Bank's significant plans and decisions (including changes to structure, expanding the Bank's operations or halting them) and future expectations:

A. Future Plans:

The Board of Directors reviewed the Bank's future plan in December 2019 with an ambitious five-year roadmap under the title 'Leap' to deliver by 2023. The plan is designed to solidify the Bank's leadership position in corporate banking; scale up in retail banking, optimise our leading position in private banking and reinforce our continued growth in global markets. A core theme across these four pillars is an underlying focus on enhancing customer experience and delivering best-in-class customer journeys.

B. Strategy:

The ambition of Banque Saudi Fransi is to achieve and sustain an overall 10% market share in the Kingdom across total assets and liabilities. The Bank aims to gain market share through a new retail market focus and by building on strong relationships in corporate banking activities. In corporate banking, the Bank will protect a leading market share position with a focus on enhancing the credit lending process, platform integration, institutionalised cross selling and an enhanced digital offering. On the retail front, 2020 will see continued focus on the affluent market and a growth in share in mass retail, focusing on both active customer numbers and overall assets. This will be driven by aligning with Vision 2030 growth opportunities, enhanced cross selling, revamped distribution strategy and developing digital propositions.

Two particular programmes will support the delivery of the 2023 plan. First, in 2019 the Bank began integrating its corporate and retail platforms to drive cost efficiencies and enhance cross selling. Second, the Bank has set an ambitious goal to be best-in-class in terms of customer experience. Starting in 2018, BSF created a baseline Net Promoter Score (NPS) to measure customer engagement ensuring that the bank achieves its mission to be the most experience focused and innovative bank in the region. In 2019, NPS showed improved customer experience and loyalty and will be measured going forward as a key driver of market share success. The Bank's growth outlook to 2023 is also underpinned by a strong capital base and sufficient liquidity well above the minimum regulatory thresholds.

The Bank has defined its strategic drivers around consistently delivering shareholder value, resilience in earnings, efficiency in operation, outstanding customer experience, and ensuring the bank remains a great place to work. The success of this strategy will be championed by exceptional leaders across every business unit and department, enabled by our talented people, and supported by a strong and committed Board of Directors.

(13) Information on any risks facing the Bank (operational, financing, or market related) and the policy of managing and monitoring these risks:

A. Risk Appetite Framework:

The Risk Appetite Statement is reviewed and renewed by the Board of Directors annually, or on significant changes to business strategy. It encapsulates the quantum and type of risks which the Bank is willing to accept within its risk capacity to achieve its Strategic Risk Objectives and Business Plan. Its objective is to provide the Bank's management and business lines with guidance regarding the risk profile that the Bank is prepared to accept. The Bank has revised its Risk Appetite Framework for 2020. It has enhanced the Bank's Risk Appetite and formulated business line cascades for Corporate and Retail.

The Risk Appetite articulates the Bank's tolerance for risk across a wide range of parameters, which include solvency and capital adequacy, liquidity and funding, credit quality and provisioning, credit concentration, market risk, operational risk, people risk and the investment portfolio. The limits have been established taking into account adequate buffers vis-à-vis regulatory thresholds, where applicable.

The Corporate metrics provide detailed guidance on RWA usage, segmental and country limits, banking portfolio credit quality, sectoral distribution and obligor concentrations to align the Business Strategies with the Bank's Risk Appetite. The Retail metrics provide guidance on recovery-adjusted default flow rates for various product segments.

The Risk Management Group monitors adherence to the approved Risk Appetite Statement. Deviations, if any, from the acceptable tolerance bands are escalated for further action by Senior Management, or corrective action being initiated. At quarterly intervals, the Executive Committee of the Board and the Board Risk Committee review the actual position of the risk indicators vis-à-vis the laid down parameters.

B. Credit Risk Management:

The Bank's credit portfolio is managed in accordance with the Credit Policy and Risk Appetite which together provide the qualitative and quantitative guidelines, with particular emphasis on avoiding undue concentrations or aggregations of risk.

The target customers and credit risk acceptance criteria emerge from the Corporate and Retail Risk Appetite presentations by the Risk Management Group in consultation with the business line heads and approved by the Board of Directors.

The credit granting and approval process is performed through credit committees with different levels of credit approval delegation, and the Credit Risk Department being entrusted with the responsibility of providing independent risk opinions on the credit requests emanating from the business lines.

The decision making in the credit committees of the Bank is aided by internal credit rating models developed and maintained for different segments of the banking book and subject to re-validation at periodical intervals. The Bank is well poised to integrate and apply SAMA's rules for Guidelines for Banks on Management of Problem Debt published in May 2019, when adopted.

C. Market Risk Management:

Concerning Market Risk monitoring, the Bank has clearly defined policies and procedures related to market risk activities, as well as a comprehensive set of market risk limits (together with loss alerts) which are reviewed at least annually, and independently monitored on a daily basis by a dedicated Market Risk department.

In order to monitor the market risk in the trading book, the Bank applies on a daily basis a VAR methodology based on historical rates evolutions observed in the market, and also performs daily stress testing in order to estimate the potential economic loss based on a defined set of significant changes in market conditions (i.e. extreme adverse market movements).

D. Operational Risk Management:

Operational Risk Management (ORM) is the second line of defense actively engaged in identifying, analysing, evaluating and ensuring sound treatment for prevailing operational risks across the organisation. Ensuring a sound implementation of the OpRisk framework, ORM manages an array of systematic and idiosyncratic risks which can be traced back to people, processes, systems and external events.

A comprehensive, systematic and integrated approach allows ORM to work closely with business, support and other control entities providing proactive advice and oversight to all banking functions. Dynamic Operational Risk Profiles (DYRPs) are maintained for all key processes across the Bank, reflecting their risk exposure, current controls and their on-ground performance to derive the required remediation requirements, as part of our continuous improvement programme. These allow for analysing the overall risk position of each unit and are collated to form the Bank-wide Risk Heat map.

With timely incident reporting, strong detection mechanisms and efficient incident response processes, our Incident Management allows for minimising impacts and ensuring lessons are learnt. This has been achieved by inculcating a strong risk culture, introducing various training programmes for staff and creating awareness through regular broadcasts.

In our drive towards predictive analytics, KRIs have played a pivotal role in providing early warning signs for possible operational failures, helping to gauge risk levels accurately.

With the Control Testing practice reaching maturity, ORM has great visibility on the performance of the current first and second level of controls, while being able to identify control gaps and ensure timely corrective actions.

Given the global rise in outsourcing risk with the advent of FinTech and digitalisation, the proactive Outsourcing Risk Assessment has allowed for a review of contracts prior to being signed, coupled with strong monitoring during the course of contracts.

Technology Risk Management is an essential part of ORM, since Information, Communication and Technology (ICT) are core to the banking operations. ORM continues to ensure full coverage of technology and digital banking risks and their associated mitigation plans, allowing for the protection of the Banks' customers and related stakeholders, as well as ensuring reliable digital and conventional banking services.

Insurance Risk Management creates a great risk-sharing mechanism, increasing the Bank's resilience in the highly volatile and dynamic financial services industry, with evolving risks and threats. With the enhanced Insurance Risk Management Policy, ORM performs deep risk analytics to understand the Bank's current losses' profile and reviews the insurance policy coverage accordingly.

(13) Information on any risks facing the Bank (operational, financing, or market related) and the policy of managing and monitoring these risks: continued

Furthermore, with a robust and comprehensive Business Continuity Management practice, the Bank has ensured that critical operations can continue to function at an acceptable level in the event of a disaster or long-term outage of normal facilities, utilities, systems and functions. The Bank has proactively implemented the ISO 22301 standard to enhance operational resilience, covering Business Continuity, Crisis Management & Disaster Recovery. With comprehensive Risk Assessment & Business Impact Analysis, critical functions are identified along with resources and dependencies. Comprehensive testing ensures that the Bank's Business Continuity and Disaster Recovery Plans are well understood and subject to periodic testing.

In the continuous pursuit for excellence, BSF Board of Directors recognise Cybersecurity as a strategic enabler to accomplish its corporate mission and are hence firmly committed to maintaining high standards of security over its assets and information.

Cybersecurity is managed by the Chief Information Security Officer (CISO), who is an accountable senior-level executive and is responsible for establishing and maintaining the enterprise vision, strategy, and programme on cybersecurity. Strong governance through the Banque Saudi Fransi Cybersecurity Committee, coupled with participation in the SAMA & CMA Information Security Committee's, has allowed the Bank to ensure a proactive role as the second line of defense, while staying abreast with upcoming risks, threats and alerts.

Banque Saudi Fransi has adopted a risk-based approach for ensuring a systematic, repeatable and consistent practice to detect, analyse, evaluate, communicate and mitigate cyber security risk. The Bank has further matured with its robust Cybersecurity awareness programme encompassing customers and staff, as well as enhanced its incident management and forensics capabilities. These achievements are further accredited by the achievement of continuous compliance status against ISO/IEC 27001 and Payment Card Industry Data Security Standard (PCI DSS).

E. International Financial Reporting Standards (IFRS):

On 1 January 2018, the Bank adopted International Financial Reporting Standard 9 (IFRS 9). The standard incorporates a forward-looking expected credit loss (ECL) approach. The Bank is required to record an allowance for expected losses for all loans and other debt type financial assets not held at fair value through profit or loss. The allowance is based on the ECL associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

Over the course of 2019, the Bank has further streamlined the IFRS 9 computation including:

- Automations on input and output processes on previously implemented IFRS 9 technology platform to calculate ECL, by the sophisticated approach of GPPC, adhering to SAMA guidelines.
- Improvements in credit and rating policies and procedures including a major thrust in analytical processes mentioned below.
- Improvements in its analytical models (IFRS 9 Macroeconomic models, underlying rating models for Corporate segments) as part of Phase 2 development. The models are more aligned to KSA default rates and validated for a higher level of accuracy to address all key issues related to their analytical sophistication by auditors and are backed by a strong governance process.

The bank is participating in a Quantitative Impact Analysis (QIS) conducted by SAMA under the Draft rules Governing Credit Risk Exposure Classification and Provisioning, which aligns IFRS 9 Provisioning and the Capital Rules. These improvements for SAMA banks are due to come into effect on 1st July 2021.

(14) Credit ratings of the Banque Saudi Fransi granted by international rating agencies:

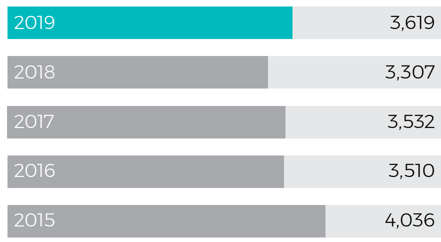
Ratings	Standard & Poor's Ratings Services	Moody's Investors Service	Fitch Ratings
Long-term ratings	BBB+	A1	BBB+
Short-term ratings	A-2	P-1	F2
Outlook / Review	Stable	Stable	Stable
Last published credit opinion	26/08/2019	24/09/2019	7/10/2019

(15) The Bank's assets, liabilities and financial results in the last five financial years:

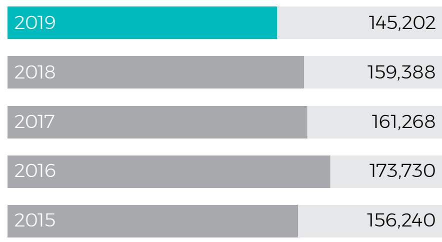
(in thousands of Saudi Riyals)	2019	2018	2017	2016	2015
Total assets	178,148,577	190,250,277	192,928,881	203,428,709	183,724,281
Investments and investments in associates, net	31,463,474	28,381,675	25,400,944	24,187,599	28,524,948
Loans and advances, net	125,725,096	120,631,634	121,940,394	129,457,869	123,769,457
Total liabilities	145,201,859	159,388,327	161,267,500	173,729,706	156,240,480
Customer Deposits	132,837,502	148,368,004	150,954,187	158,458,472	141,852,100
Total equity	32,946,718	30,861,950	31,661,381	29,699,003	27,483,801
Total operating income	6,872,550	6,798,644	6,576,207	6,399,714	6,291,498
Total operating expenses	3,253,408	3,494,119	3,051,891	2,896,270	2,262,415
Share in earnings of associates, net	0	2,529	7,568	6,790	7,361
Net income before Zakat and income tax	3,619,142	3,307,054	3,531,884	3,510,234	4,036,444
Net special commission income	5,205,677	5,016,872	4,699,670	4,256,187	4,055,279
Fees from banking services, net	1,139,506	1,095,503	1,119,318	1,363,990	1,327,521
Impairment charge for credit losses and other financial assets, net	966,244	1,202,794	664,613	747,394	169,651
Salaries and employees related expenses	1,329,250	1,379,980	1,384,543	1,392,408	1,249,079
Number of employees	2,998	3,027	3,072	3,233	3,207

Financial indicators for the last five years:

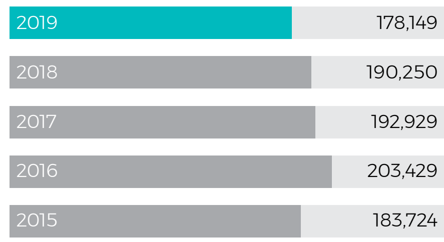
NET INCOME (BEFORE ZAKAT & INCOME TAX) (SAR MILLION)



TOTAL LIABILITIES (SAR MILLION)

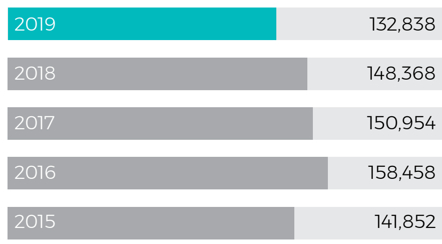


TOTAL ASSETS (SAR MILLION)



LOANS AND ADVANCES, NET (SAR MILLION)

CUSTOMERS' DEPOSITS (SAR MILLION)



TOTAL EQUITY (SAR MILLION)

(16) Geographical analysis of the Bank's and its affiliates' revenues:
The following table shows the income for each region (Eastern, Western, Central, Head Office, and subsidiaries) for 2019:

Banque Saudi Fransi and its subsidiaries, excluding Saudi Fransi Capital					
(in thousands of Saudi Riyals)	Western	Eastern	Central	Head Office	Total
Total income	1,251,803	1,261,317	2,037,761	2,027,994	6,578,875
Total Expenses (before provisions)	(213,748)	(170,428)	(234,221)	(1,488,551)	(2,106,948)
Provisions	(172,800)	(417,188)	(288,179)	(88,077)	(966,244)
Net income	865,255	673,701	1,515,361	451,366	3,505,683
Saudi Fransi Capital					
(in thousands of Saudi Riyals)	Western	Eastern	Central	Head Office	Total
Total income	48,933	18,357	27,119	199,266	293,675
Total Expenses (before provisions)	(12,709)	(5,677)	(13,918)	(147,912)	(180,216)
Provisions	–	–	–	–	–
Net income	36,224	12,680	13,201	51,354	113,459
Banque Saudi Fransi Group					
(in thousands of Saudi Riyals)	Western	Eastern	Central	Head Office	Total
Total income	1,300,736	1,279,674	2,064,880	2,227,260	6,872,550
Total Expenses (before provisions)	(226,457)	(176,105)	(248,139)	(1,636,463)	(2,287,164)
Provisions	(172,800)	(417,188)	(288,179)	(88,077)	(966,244)
Net income before Zakat and income tax	901,479	686,381	1,528,562	502,720	3,619,142

(17) Material differences in the operational results compared to the preceding year's results, along with any expectations announced by the Bank:

(17/A) Consolidated income statement for the years ended on 31 December, 2019 and 2018:

(in thousands of Saudi Riyals)	2019	2018
Special commission income	7,369,530	6,947,576
Special commission expense	2,163,853	1,930,704
Net special commission income	5,205,677	5,016,872
Fee and commission income	1,504,211	1,402,549
Fee and commission expense	364,705	307,046
Net fee and commission income	1,139,506	1,095,503
Exchange income, net	335,504	347,173
Trading income, net	92,163	194,257
Dividend income	2,442	896
Gains/(losses) on FVOCI	31,456	(23,481)
Gains on sale of associate	–	97,310
Other operating income	65,802	70,114
Total operating income	6,872,550	6,798,644
Salaries and employee related expenses	1,329,250	1,379,980
Rent and premises related expenses	75,796	167,784
Depreciation and amortisation	211,284	154,166
Other operating and general and administrative expenses	670,834	589,395
Total operating expenses before impairment charge	2,287,164	2,291,325
Impairment charge for credit losses, net	1,008,567	910,499
Impairment charge for associate	–	32,500
Impairment (reversal)/charge for investments and other financial assets, net	(42,323)	259,795
Total operating expenses, net	3,253,408	3,494,119
Net operating income	3,619,142	3,304,525
Share in earnings of associates, net	–	2,529
Net income for the year before Zakat and income tax	3,619,142	3,307,054
Zakat and income tax for the year	504,176	1,904,038
Net income for the year after Zakat and income tax	3,114,966	1,403,016
Basic and diluted earnings per share (SAR)	2.60	1.17

(17/B) Summary of financial results as follows:

(in millions of Saudi Riyals)	31-12-19	31-12-18	change	%
Net income after Zakat and income Tax	3,115	1,403	1,712	122.02%
Net income before Zakat and income Tax	3,619	3,307	312	9.43%
Total Operating income	6,873	6,799	74	1.09%
Net special commission income	5,206	5,017	189	3.77%
Assets	178,149	190,250	-12,101	-6.36%
Investments	31,454	28,372	3,082	10.86%
Loan and advances portfolio	125,725	120,632	5,093	4.22%
Customer Deposits	132,838	148,368	-15,530	-10.47%
Total shareholders' equity	32,947	30,862	2,085	6.76%
Earnings per share	2.60	1.17	1.43	122.22%

(18) Any inconsistency with the standards approved by the Saudi Organization for Certified Public Accountants:
The consolidated financial statements of the Bank have been prepared:
I. In accordance with 'International Financial Reporting Standards' (IFRS) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA); and
II. In compliance with the provisions of Banking Control Law, the applicable provisions of Regulations for Companies in the Kingdom of Saudi Arabia and By-Laws of the Bank.

(19) The name of each affiliate, its capital, the Bank's ownership percentage, the main scope of business, the country of operation, and the country of incorporation:

Company Name	Capital	Equity percentage	Activity	Main State of its Operations	State of Incorporation
Saudi Fransi Capital	500 million Saudi Riyals	100	Acting as a principal and an agent, undertaking management, arranging, advising and custody in securities trading	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia
Saudi Fransi for Finance Leasing	500 million Saudi Riyals	100	Leasing and financing of vehicle assets (Cars, motorcycles, trucks) and heavy equipment and machinery, in addition to the purchase and registration of these assets	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia
Sakan Real Estate Company	500 thousand Saudi Riyals	100	Financing real estate and land through Ijarah & Murabaha, buying land and real estate, and investing on behalf of the Bank	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia
Saudi Fransi Insurance Agency Co.	500 thousand Saudi Riyals	100	Insurance brokerage services	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia

Banque Saudi Fransi has a share in the Saudi Credit Bureau (SIMAH) of 10.9% of its capital of SAR 20 million. It also owns shares in the Saudi Financial Support Services Company (SANID) (formerly Saudi Traveller Cheques Company) of 5% of its capital of SAR 25 million. The Bank also invests SAR 1.786 million in the Saudi Financial Lease Registration Company. Moreover, Banque Saudi Fransi owns shares in Sofinco Saudi Fransi of 100% of its capital, however it has no material impact on the Group financial statements.

All of the companies listed above are existing and established in Saudi Arabia.

In addition, the Banque Saudi Fransi Markets Co. Ltd., a limited liability company owned 100% by the Bank with authorised capital of USD 50,000 (equivalent to SR 187,500), has been established in the Cayman Islands. This company is engaged in derivative trading and repo activities. The Bank also owns BSF Sukuk Limited company which is incorporated in the Cayman Islands, having a 100% share in equity (authorised capital of USD 50,000), which has no material impact on the Group financial statements.

The Bank has investments in other companies. It owns 27% of the capital of Banque BEMO Saudi Fransi, a joint stock company established in Syria with a capital of SYP 5.5 billion. It commenced operations on 01/04/2004. The Bank also owns 10.33% of Banque BEMO Lebanon, a company incorporated in Lebanon, Beirut on 01/08/2003 with a capital of LBP 62.25 billion. All legal and contractual procedures are being followed to complete the sale of Banque Saudi Fransi's share in Banque BEMO Saudi Fransi, Syria, and Banque BEMO Lebanon based on the announcement on 26/11/2011 through Tadawul; that the Board of Directors of the Banque Saudi Fransi has unanimously decided to sell its shares in Banque BEMO Saudi Fransi, Syria (27%) and its shares in Banque BEMO Lebanon (10.33%). Banque Saudi Fransi is not represented on the boards of the Banque BEMO Saudi Fransi, Syria or Banque BEMO Lebanon as of 26/11/2011, and its main partners in Banque BEMO Lebanon were informed of this decision.

The Bank also owns 2,800,000 shares in Allianz Saudi Fransi Cooperative Insurance Company (20 million shares), i.e. 14% of the company's share capital of SR 200 million.

(20) Details of shares and debt instruments issued for each affiliate Company:
a) No shares or debt instruments were issued to subsidiaries during 2019.
b) Loans provided by the Bank to its subsidiaries:

The following table shows the loans made on 31/12/2019 by Banque Saudi Fransi to its subsidiaries:

Name of subsidiary	In thousands of Saudi Riyals)
Saudi Fransi Capital*	1,391,466
Saudi Fransi for Finance Leasing**	1,620,000

Saudi Fransi Capital has an overdraft facility and Saudi Fransi for Finance Leasing has a term loan facility from Banque Saudi Fransi. There is no other loan available to the subsidiaries, except for the above loans provided by Banque Saudi Fransi.

* **Details of Saudi Fransi Capital loans:**

(in thousands of Saudi Riyals)	2019	2018
Opening balance	1,160,829	1,032,535
Loan granted during the period	4,263,234	5,857,313
Repayment of loans during the period	4,032,597	5,729,019
Closing balance of loans	1,391,466	1,160,829

** **Details of loans to Saudi Fransi for Finance Leasing:**

(in thousands of Saudi Riyals)	2019	2018
Opening balance	1,695,000	1,905,000
Loan granted during the period	400,000	350,000
Repayment of loans during the period	475,000	560,000
Closing balance of loans	1,620,000	1,695,000

(21) Description of the dividend distribution policy:
Cash distribution of dividends by the Bank depends on several factors including assumptions and recommendations of the Board of Directors based on the financial position of the Bank, results of the Bank's operations, current capital adequacy and prospective financial position of the Bank and liquidity requirements in the short and medium term considering the Bank's expansion plans and projects.

The distribution of the annual net profit, after deducting all expenses and other costs, taking the necessary precautions for doubtful debts, investment losses and contingent liabilities as deemed appropriate by the Board in compliance with the provisions of the Banking Control Law, are as follows:
1. The amounts required to pay Zakat assessed on the Saudi shareholders and the tax assessed on foreign shareholders are calculated in accordance with the applicable laws and regulations of the Kingdom of Saudi Arabia. The Bank shall pay these amounts to the competent authorities. The Zakat paid on behalf of Saudi shareholders will be deducted from their share in the net profit, and the tax paid on behalf of non-Saudi shareholders will likewise be deducted from their share of the net profit.
2. A minimum of 25% of the net profits remaining after the deduction of Zakat and tax as stated above in paragraph (1), shall be transferred to the statutory reserve until the mentioned reserve is equal, at least, to the paid-up capital.
3. From the remaining profits, after the deduction of the statutory reserve, Zakat and tax, a minimum of 5% of the paid-up capital shall be allocated to Saudi and non-Saudi shareholders to be distributed prorate to the value of paid-up shares of Saudi and non-Saudi shareholders, as recommended by the Board and decided by the General Assembly. If the remaining profits accruing to any Saudi or non-Saudi shareholder is found to be insufficient to pay such dividends to the respective shareholders, such shareholders shall not have the right to demand such distribution from the following year/s' profits. Moreover, the General Assembly shall not be entitled to distribute any dividends that exceed the limit duly recommended by the Board.
4. The remaining profits after the allocation of the amounts mentioned in the aforementioned paragraphs (1), (2) & (3) shall be used as recommended by the Board and determined by the General Assembly.
5. The subscription ratio of each Saudi and non-Saudi shareholder must be maintained upon calculation of the allocations needed for the statutory reserve and other reserves from net profits (after Zakat and tax). The two shareholding groups shall contribute to those reserves as per their percentage of the capital, and their contributions will be deducted from their shares of the net profits.
6. Cash dividends shall be distributed to shareholders at the place and time determined by the Board of Directors in accordance with applicable regulations.
7. The Board may decide not to distribute cash dividends and use such dividends in the settlement of debts, obligations or commitments of shareholders to the Bank.
8. The Bank may distribute interim dividends for its shareholders semiannually or quarterly, after satisfying the necessary requirements stipulated in the Articles of Association.
9. Shareholders must be informed of this policy during the General Assembly meeting.

(21) Description of the dividend distribution policy: continued

Basic and diluted earnings per share:
Basic and diluted earnings per share for the year ended 31 December 2019 are calculated on a weighted average basis by dividing the net income for the year by 1,200 million shares after excluding treasury shares of 5.7 million shares (as of 31 December 2019 (31 December 2018: 6 million shares)).

Total dividends:
The Board of Directors has proposed a final net dividend of SAR 1,200 million (2018: SAR 958 million), i.e. SAR 1.00 (2018: SAR 0.80) net per share for the year, which is subject to the approval of the shareholders at the Annual General Assembly Meeting and the regulatory agencies. The Board of Directors has declared an interim net dividend of SAR 1,155 million (2018: SAR 1,028 million), i.e. SAR 1.00 (2018: SAR 0.90) net per share.

	Dividends distributed during the year 2019		Proposed dividend for the end of 2019	Total for 2019
	Final for 2018	Interim 2019		
Amount (in thousands of Saudi Riyals)	958,081	1,155,151	1,199,679	2,354,830
Pay-out Ratio (before Zakat and tax)	75.19%	55.49%	78.02%	65.07%

(22) Main shareholders of the Bank, and a description of any interest in a class of voting shares held by persons (other than the Bank's Directors, Senior Executives and their relatives) who have notified the Bank of their holdings, together with any change to such interests during the last fiscal year:

The table below shows the equity of the main shareholders in the Bank's shares during the fiscal year 2019:

Main shareholders in the capital of the Bank as at 31/12/2019

S.	Shareholder	Number of Shares at the beginning of the year	Equity percentage at the beginning of the year	Number of Shares at the end of the year	Equity percentage at the end of the year	Net change	Change percentage
1	Kingdom Holding Company	195,267,861	16.199%	195,267,861	16.199 %	–	–
2	Rashed Abdul Rahman Al Rashed & Sons Co.	118,488,534	9.830%	118,488,534	9.830 %	–	–
3	RAM Holding	–	–	108,482,145	8.999%	108,482,145	100%
4	General Organization for Social Insurance	160,195,361	13.290%	108,244,467	8.980%	(51,950,894)	(32.429%)

No person (other than the Bank's Directors, Senior Executives and their relatives) has notified the bank about any interest in a class of voting shares.

(23) A description of any interest, contractual securities or rights issue of the Board members, Senior Executives and their relatives on shares or debt instruments of the Bank or its affiliates, and any change on these interests or rights during the last fiscal year:

Description of any interest, contractual securities and subscription rights of the Board members and their relatives in the Bank's shares or debt instruments

	Name of those who have interest or contractual securities or subscription rights	Beginning of the year		End of the year		Net change	Change percentage
		Number of Shares	Debt instruments	Number of Shares	Debt instruments		
1	RAM Holding	–	–	108,482,145	–	108,482,145	100%
2	Mazin Al Romaih	6,000	–	6,000	–	0	0%
3	Talal Al Maiman	150,000	–	150,000	–	0	0%
4	Relatives of Talal Al Maiman	–	–	1	–	1	100%
5	Abdulrahman Al Rashed	312,685	–	312,685	–	0	0%
6	Relatives of Abdulrahman Al Rashed	5,650,643	–	5,371,652	–	(278,991)	(5%)
7	Khaled Al Mutabagani	59,624	–	59,624	–	0	0%
8	Relatives of Khaled Al Mutabagani	16,755,682	–	16,743,222	–	12,460	0%
9	Bader Al Issa	1,000	–	1,000	–	0	0%
10	Relatives of Bader Al Issa	178	–	178	–	0	0%
11	Abdullatif Al Othman	1	–	1	–	0	0%
12	Ghazi Al Rawi	1,000	–	1,000	–	0	0%
13	Khaled Al Omran	40	–	40	–	0	0%
14	Relatives of Khaled Al Omran	23,216,959	–	19,601,352	–	(3,615,607)	(16%)
15	Rayan Fayez	10	–	10	–	0	0%

Description of any interest, contractual securities and subscription rights of Senior Executives and their relatives in the Bank's shares or debt instruments

	Name of those who have interest	Beginning of the year		End of the year		Net change	Change percentage
		Number of Shares	Debt instruments	Number of Shares	Debt instruments		
1	**Mazen Al Tamimi**	–	–	90,000	–	90,000	100%
2	**Relatives of Mazen Al Tamimi**	1,259,050	–	1,259,050	–	0	0%
3	**Adel Ali Malawi**	–	–	46,663	–	46,663	100%

(24) Information on any loans (payable upon request or not), a statement of the total indebtedness of the Bank and its affiliates, any amounts paid by the Bank in repayments of loans during the year, the amount of the principal debts, the creditor name, the loan term and remaining amount:

A. There are no loans on the Bank (loans to subsidiaries are set out in item 20 of this report).
B. Debt instruments and sukuks.

There are no outstanding debt instruments and sukuks as of 31 December 2019. During the year, the Bank has fully settled a privately placed SAR 2,000 million unsecured subordinated sukuk issued in June 2014 for a period of 10 years. The sukuk was settled due to the exercise of the option to repay after 5 years, subsequent to approval of SAMA and in line with terms and conditions of the agreement.

Repayment of debt instruments:
During the year, the Bank has fully settled a privately placed SAR 2,000 million unsecured subordinated sukuk issued in June 2014 for a period of 10 years.

C. There are no convertible debt instruments, contractual securities and subscription rights or similar rights issued or granted by the Bank and its subsidiaries during the fiscal year.
D. There are no converting or subscription rights under convertible debt instruments, contractual securities, notes of subscription rights or similar rights issued or granted by the Bank during the fiscal year.
E. There is no redemption, purchase or cancellation by the Bank of any redeemable debt instruments.

(25) The number of Board meetings held during the last financial year, their dates and the attendance record of each meeting, listing the names of the attendees:

	Dates of Meetings						
	Member name	First Meeting 14/02/2019	Second Meeting 01/05/2019	Third Meeting 17/09/2019	Fourth Meeting 18/09/2019	Fifth Meeting 12/12/2019	Total
1	Mazin Al Romaih	✓	✓	✓	✓	✓	5
2	Talal Al Maiman	✓	✓	✓	✓	✓	5
3	Abdulrahman Al Rashed	X	✓	X	X	✓	2
4	Khaled Al Mutabagani	✓	✓	✓	✓	X	4
5	Bader Al Issa	✓	✓	✓	✓	✓	5
6	Abdullatif Al Othman	✓	✓	✓	✓	✓	5
7	Ghazi Al Rawi	✓	✓	✓	✓	✓	5
8	Khaled Al Omran	✓	✓	✓	✓	✓	5
9	Rayan Fayez	✓	✓	✓	✓	✓	5
10	Timothy Collins*	-	✓	✓	✓	✓	4
11	Jacques Prost**	✓	-	-	-	-	1

* Appointed as a member of the Board of Directors as of 23/04/2019.
** Resigned as of 17/03/2019.

(26) Number of company's requests of shareholders records, including dates and reasons:

	Application Date	Application Reasons
1	10/01/2019	Other
2	17/01/2019	Other
3	24/01/2019	Other
4	31/01/2019	Other
5	07/02/2019	Other
6	14/02/2019	Other
7	21/02/2019	Other
8	28/02/2019	Other
9	07/03/2019	Other
10	14/03/2019	Other
11	21/03/2019	Other
12	28/03/2019	Other
13	31/03/2019	Corporate procedures
14	04/04/2019	Other
15	11/04/2019	Other
16	18/04/2019	Other
17	25/04/2019	Other
18	02/05/2019	Other
19	05/05/2019	Profits file
20	06/05/2019	Other
21	13/05/2019	Other
22	20/05/2019	Other
23	27/05/2019	Other
24	29/05/2019	Other
25	30/05/2019	Other
26	10/06/2019	Other
27	09/06/2019	Other
28	17/06/2019	Other

	Application Date	Application Reasons
29	24/06/2019	Other
30	30/06/2019	Corporate procedures
31	01/07/2019	Other
32	15/07/2019	Profit file
33	08/07/2019	Other
34	15/07/2019	Other
35	22/07/2019	Other
36	29/07/2019	Other
37	05/08/2019	Other
38	19/08/2019	Other
39	26/08/2019	Other
40	02/09/2019	Other
41	09/09/2019	Other
42	16/09/2019	Other
43	24/09/2019	Other
44	30/09/2019	Corporate procedures
45	07/10/2019	Other
46	14/10/2019	Other
47	21/10/2019	Other
48	28/10/2019	Other
49	04/11/2019	Other
50	11/11/2019	Other
51	18/11/2019	Other
52	25/11/2019	Other
53	02/12/2019	Other
54	12/12/2019	General Assembly
55	09/12/2019	Other
56	16/12/2019	Other
57	30/12/2019	Other
58	31/12/2019	Corporate procedures

(27) Description of any transactions between the Bank and a related party:
The Bank during its normal course of business deals with related parties. The management and the Board of Directors consider that transactions with related parties have been made on the same terms with other parties. Transactions with related parties are subject to the ratios stipulated in the Banking Control Law and the instructions issued by the Saudi Arabian Monetary Authority. The balances resulting from these transactions as of 31 December 2019 and 2018 which are included in the consolidated financial statements, are as follows:

(in thousands of Saudi Riyals)	2019	2018
Associates		
Investments	9,695	9,695
Due to banks and other financial institutions	–	7,983
Directors, auditors, Senior Management and major shareholders' and their affiliates		
Loans and advances	11,975,396	7,347,118
Investments	430,870	178,140
Due from banks and other financial institutions	500,000	1,421,019
Other assets	7	–
Customers' deposits	8,416,294	10,715,976
Due to banks and other financial institutions	8,017	22,883
Other liabilities	9,096	–
Derivatives at fair value, net	47,457	80,129
Commitments and contingencies	3,998,308	2,408,784
Bank's mutual funds		
Derivatives at fair value, net	-833	–
Customers' deposits	6,042,214	5,741,676

The following table shows the income and expenses of transactions with related parties that are included in the consolidated financial statements:

(in thousands of Saudi Riyals)	2019	2018
Special commission income		
– Directors, auditors, Senior Management and major shareholders' and their affiliates	617,739	297,656
– Bank's mutual funds	4	12
Total special commission income	617,743	297,668
Special commission expense		
– Directors, auditors, Senior Management and major shareholders' and their affiliates	360,012	278,755
– Associates	187	100
–Bank's mutual funds	1,569	5,403
Total special commission expense	361,768	284,258
Fees, commission income and others, net	(52,718)	(71,395)
Directors' fees	9,141	5,174
Other general and administrative expenses	93,438	84,619

(28) Contracts and transactions made with the Bank, in which there is or there was an interest of a Board member of the Bank or a Senior Executive, or any person related to any of them:

	The nature of business or contract	The amount of business or contract	Start date of the contract	End date of the contract	Contract status	Name of the Board member, Senior Executive or any person related to them
1	Support Services (Al Khaleej Training & Education)	4,991,640.15	Contracts and provision of multiple support based on requests from the Bank's business sectors, such as call centres. Price varies annually			Mr. Abdulrahman Al Rashed, his brother is a Board member of Al Khaleej Training & Education (Board member of the Bank)
2	Provision of telecommunication services (Mobily)	3,867,670.75	Contracts and provision of multiple services based on requests from the Bank's business sectors, such as SMS services for customers, the internet and others. Price varies annually			HE: Abdulaziz Abdullah Abdulaziz Al Molhem, his Brother is a Board Member of Mobily Company (Senior Executive of the Bank)
3	Rental of Offices (Al Rashid Trading & Contracting Co)	1,623,000	10/10/2016	10/10/2022	Valid, however, Banque Saudi Fransi sent a request to cancel the contract and hand over the site on 09/10/2020	Owner: Abdulrahman Al Rashed (Board Member of the Bank)
4	Rental of Offices (Al Rashid Trading & Contracting Co)	1,052,918	01/07/2017	30/06/2022	Valid, however, Banque Saudi Fransi sent a request to cancel the contract and hand over the site on 30/06/2020	Owner: Abdulrahman Al Rashed (Board Member of the Bank)
5	Rental of an ATM site	40,000	01/06/2001	31/05/2020	Valid	Owner: Khaled Mutabagani (Board Member of the Bank)
6	Rental of an ATM site	35,000	01/06/2014	31/05/2024	Valid	Owner: Khaled Mutabagani (Board Member of the Bank)
7	Rental of an ATM site	43,000	01/12/2010	30/11/2020	Valid	The site is owned by the Kingdom Holding Company (a principal shareholder in the Bank's capital)
8	The Saudi Stock Exchange (Tadawul)	1,040,325.84	Contracts and provision of multiple services and sponsorship based on requests from the Bank's business sectors			Board Member at Tadawul: Rayan Fayez (Board Member of the Bank)
9	Property & Business Interruption Insurance (Allianz)	334,045	01/07/2019	30/06/2020	Valid	Board Members at Allianz: Mazen Hani Zaki Al Tamimi and Adel Mohammed Ali Mallawi (Senior Executives of the Bank)
10	Property & Business Interruption Insurance (Allianz)	331,061.69	01/07/2018	30/06/2019	Ended	Board Members at Allianz: Mazen Hani Zaki Al Tamimi and Adel Mohammed Ali Mallawi (Senior Executives of the Bank)
11	Electronic Equipment & Computer all Risks Insurance (Allianz)	179,846	01/07/2019	30/06/2020	Valid	Board Members at Allianz: Mazen Hani Zaki Al Tamimi and Adel Mohammed Ali Mallawi (Senior Executives of the Bank)
12	Electronic Equipment & Computer all Risks Insurance (Allianz)	179,869.52	01/07/2018	30/06/2019	Ended	Board Members at Allianz: Mazen Hani Zaki Al Tamimi and Adel Mohammed Ali Mallawi (Senior Executives of the Bank)
13	Comprehensive General Liability Insurance (Allianz)	22,000	01/07/2019	30/06/2020	Valid	Board Members at Allianz: Mazen Hani Zaki Al Tamimi and Adel Mohammed Ali Mallawi (Senior Executives of the Bank)
14	Comprehensive General Liability Insurance (Allianz)	22,020	01/07/2018	30/06/2019	Ended	Board Members at Allianz: Mazen Hani Zaki Al Tamimi and Adel Mohammed Ali Mallawi (Senior Executives of the Bank)

(28) Contracts and transactions made with the Bank, in which there is or there was an interest of a Board member of the Bank or a Senior Executive, or any person related to any of them: continued

	The nature of business or contract	The amount of business or contract	Start date of the contract	End date of the contract	Contract status	Name of the Board member, Senior Executive or any person related to them
15	Sabotage & Terrorism Insurance (Allianz)	124,875.24	01/07/2019	30/06/2020	Valid	Board Members at Allianz: Mazen Hani Zaki Al Tamimi and Adel Mohammed Ali Mallawi (Senior Executives of the Bank)
16	Sabotage & Terrorism Insurance (Allianz)	124,875.24	01/07/2018	30/06/2019	Ended	Board Members at Allianz: Mazen Hani Zaki Al Tamimi and Adel Mohammed Ali Mallawi (Senior Executives of the Bank)
17	BSF Motor Vehicles Comprehensive Insurance (Allianz)	86,283	01/07/2019	30/06/2020	Valid	Board Members at Allianz: Mazen Hani Zaki Al Tamimi and Adel Mohammed Ali Mallawi (Senior Executives of the Bank)
18	BSF Motor Vehicles Comprehensive Insurance (Allianz)	47,278.35	01/07/2018	30/06/2019	Ended	Board Members at Allianz: Mazen Hani Zaki Al Tamimi and Adel Mohammed Ali Mallawi (Senior Executives of the Bank)
19	Group Credit Life – Corporate Staff Personal Loans Insurance (Allianz)	13,096,650	01/07/2019	30/06/2020	Valid	Board Members at Allianz: Mazen Hani Zaki Al Tamimi and Adel Mohammed Ali Mallawi (Senior Executives of the Bank)
20	Group Credit Life – Corporate Staff Personal Loans Insurance (Allianz)	10,477,320	01/07/2018	30/06/2019	Ended	Board Members at Allianz: Mazen Hani Zaki Al Tamimi and Adel Mohammed Ali Mallawi (Senior Executives of the Bank)
21	Group Credit Life – BSF Staff Home Loans Insurance (Allianz)	354,195.13	01/07/2019	30/06/2020	Valid	Board Members at Allianz: Mazen Hani Zaki Al Tamimi and Adel Mohammed Ali Mallawi (Senior Executives of the Bank)
22	Group Credit Life – BSF Staff Home Loans Insurance (Allianz)	410,226	01/07/2018	30/06/2019	Ended	Board Members at Allianz: Mazen Hani Zaki Al Tamimi and Adel Mohammed Ali Mallawi (Senior Executives of the Bank)
23	Group Credit Life – SAKAN Home Loans Insurance (Allianz)	6,009,652.47	01/07/2019	30/06/2020	Valid	Board Members at Allianz: Mazen Hani Zaki Al Tamimi and Adel Mohammed Ali Mallawi (Senior Executives of the Bank)
24	Group Credit Life – SAKAN Home Loans Insurance (Allianz)	5,723,478.54	01/07/2018	30/06/2019	Ended	Board Members at Allianz: Mazen Hani Zaki Al Tamimi and Adel Mohammed Ali Mallawi (Senior Executives of the Bank)
25	Group Credit Life – SAKAN Residential Mortgage Insurance (Allianz)	686,752	01/07/2019	30/06/2020	Valid	Board Members at Allianz: Mazen Hani Zaki Al Tamimi and Adel Mohammed Ali Mallawi (Senior Executives of the Bank)
26	Group Credit Life – SAKAN Residential Mortgage Insurance (Allianz)	686,738.09	01/07/2018	30/06/2019	Ended	Board Members at Allianz: Mazen Hani Zaki Al Tamimi and Adel Mohammed Ali Mallawi (Senior Executives of the Bank)
27	Professional Indemnity Insurance (Allianz)	906,243	01/01/2019	31/12/2019	Ended	Board Members at Allianz: Mazen Hani Zaki Al Tamimi and Adel Mohammed Ali Mallawi (Senior Executives of the Bank)
28	Directors & Officers Liability (D & O) Insurance (Allianz)	347,344	01/01/2019	31/12/2019	Ended	Board Members at Allianz: Mazen Hani Zaki Al Tamimi and Adel Mohammed Ali Mallawi (Senior Executives of the Bank)
29	Privacy & Network Security Liability (Cyber) Insurance (Allianz)	618,750	01/01/2019	31/12/2019	Ended	Board Members at Allianz: Mazen Hani Zaki Al Tamimi and Adel Mohammed Ali Mallawi (Senior Executives of the Bank)

(29) Waiver of remuneration or dividends by Board members, Senior Executives or shareholders:

There are no arrangements or agreements whereby members of the Board of Directors or Senior Executives have waived any remuneration or compensation. There are no arrangements or agreements whereby a shareholder of the Bank has waived any rights in profits.

(30) A statement of the value of any paid and outstanding statutory payment on account of any Zakat, taxes, fees or any other charges that have not been paid until the end of the annual financial period with a brief description and the reasons therefor:

Statement (in thousands of Saudi Riyals)	2019	
	Repaid	Due amount
Zakat *		391,248
Income Tax **		106,294
General Organization for Social Insurance	94,561	–
Costs of visas and passports	261	–
Fees of labour office	1,608	–

*** Zakat:**

Zakat attributable to Saudi shareholders for the year of 2019 amounted to SAR 391 million (2018: SAR 277 million) which will be deducted from their share of dividend.

As a major event, in the year 2018 the Bank reached a settlement agreement with the General Authority for Zakat & Income Tax (GAZT), to settle the Zakat liability amounting to SAR 1,510.67 million for previous years and until the end of the 2017 financial year. The settlement agreement requires the Bank to settle 20% of the agreed Zakat liability in the current year and the remaining to be settled over the period of five years. Accordingly, the Bank has adjusted Zakat and income taxes for the previous years and until the end of 2017 financial year through its retained earnings in the financial statements for the year ended 31 December 2018.

As a result of the settlement agreement, the Bank has agreed to withdraw all of the previous appeals which were filed with the competent authority with respect to Zakat and income tax.

The change in the accounting treatment for Zakat and income tax has the following impact on the line items of the statements of income, statement of financial position and changes in shareholders' equity:

As at 31 December 2018:

Financial statement impacted (in thousands of Saudi Riyals)	Account	Before the restatement for the year ended 31 December 2018	Effect of restatement	Restated as at, and for the year ended, 31 December 2018
Statement of changes in equity	Provision for Zakat and income tax (retained earnings)	1,886,815	(1,886,815)	–
Statement of income	Zakat and income tax expenses	–	1,904,038	1,904,038
Statement of income	Earnings per share	2.76	(1.59)	1.17
Statement of financial position	Deferred tax asset	–	49,571	49,571
Statement of financial position	Retained earnings	5,200,042	49,571	5,249,613

As at 1 January 2018:

Financial statement impacted (in thousands of Saudi Riyals)	Account	Before the restatement as at 1 January 2018 after effect of IFRS 9	Effect of restatement	As restated as at 1 January 2018
Statement of financial position	Deferred tax asset	–	66,794	66,794
Statement of financial position	Retained earnings	5,766,088	66,794	5,832,882
Statement of changes in equity	Impact of adopting IAS 12	–	66,794	66,794

**** Income Tax:**

Income tax payable on the current years' share of income is approximately SAR 106 million (2018: SAR 99 million). The share of dividend for non-Saudi shareholders will be paid after deducting the related taxes due as described above. The deferred tax charge for the year was 6.6 million (2018: 17.2 million).

(31) Statement of the value of any investments made or any reserves set up for the benefit of the employees of the Bank:
The Bank is keen to encourage its employees and provides incentive programmes and remuneration that enhances their confidence and loyalty to the Bank. The following is a statement of the Employee Takaful Al Ghad Program and the movement it received during 2019:

(in thousands of Saudi Riyals)	Employee Share	Bank Share	Total
Balance as at the beginning of 2019	42,467	46,472	88,939
Amount added during 2019	10,612	8,803	19,415
Amount refunded during 2019	(20,373)	(1,956)	(22,329)
Balance at the end of 2019	32,706	53,319	86,025

(32) Declarations of the Board of Directors:
The Board of Directors of the Banque Saudi Fransi declares the following:
a) Proper books of account have been maintained;
b) The system of internal control is sound in design and has been effectively implemented; and
c) There are no significant doubts concerning the Bank's ability to continue its activity.

Transactions with the related parties and the information concerning any contracts or acts in which the Bank is a party, or in which there is a material interest to the Chairman and members of the Board of Directors of the Bank, the Chief Executive Officer, the Chief Financial Officer or any person directly related to any of them, have been disclosed in Disclosure No. (36) on transactions with related parties in the consolidated financial statements, and Articles (27) and (28) of this report.

(33) Auditors' reservations to the financial statements:
The auditors' report did not include any reservations to the annual financial statements.

(34) Board of Directors' recommendations to change auditors:
There was no Board recommendation to change the external auditors for the 2019 financial year.

(35) Disclosure of details of treasury shares held by the Bank and details of the uses of these shares:
The Bank acquired treasury shares as authorised by the Board under its Long Term Incentive (LTI) plan, which will grant the appreciation award of the Banks share performance to eligible employees as per LTI plan. The eligible employees will benefit from the appreciation in value of the Bank shares over the vesting period. The LTI plan has been commenced on grant date. The Bank has offered eligible employees the option of equity ownership opportunities.

The total number of treasury shares outstanding as of 31 December 2019 was 5.68 million.

The significant features of these plans are as follows:

Nature of plan	Long Term Incentive Plan	Long Term Incentive Plan	Long Term Incentive Plan
Number of outstanding plans	1	1	1
Grant date	2 July 2017	15 May 2018	31 March 2019
Maturity date	1 January 2019	1 January 2021	1 April 2022
Grant price (SAR)	23.096	23.096	35.95
Vesting period	1.5 years	2.6 years	3 years
Vesting conditions	Employees remain in service and meet required service criteria	Employees remain in service and meet required service criteria	Employees remain in service and meet required service criteria
Method of settlement	Appreciation in equity	Appreciation in equity	Equity
Valuation model	Black-Scholes	Black-Scholes	Black-Scholes
Fair value per share on grant date (SAR)	31.836	33.906	42.37

(35) Disclosure of details of treasury shares held by the Bank and details of the uses of these shares: continued
The share performance will be granted under a service condition along with market condition associated with them. The total amount of expense recognised in the consolidated financial statements in respect of the above plans for the year is SAR 16.4 million (2018: SAR 14.9 million).

	2019
Number of shares allocated for LTI calculation at the beginning of the year	4,130,000
Vested during the year	(3,130,000)
Allocated during the year, net	1,151,655
Number of shares allocated for LTI calculation at the year end	**2,151,655**

(36) Disclosures related to small, medium and micro enterprises:
A. Qualitative Disclosures:
Banque Saudi Fransi has established the MSME sector in 2014 in the belief of the importance of this sector and in providing the best financing solutions and banking facilities for the owners of these establishments. This sector includes 50 employees in three regional departments and each region has a director who supervises the progress of the work plan and reports to the head of the MSME sector.

The MSME sector is part of the Corporate Banking Group. The head of the sector submits his reports to the Committee of Micro, Small and Medium Enterprises, comprising the CEO and Managing Director, Head of the Institutional Banking Group, Head of Corporate Banking Group, Chief of the Risk Management Group and his deputy, the Retail Banking Group, Head of the Compliance Group, and Head of Micro, Small and Medium Enterprises.

The Bank also serves all its customers in the MSME category in the three main cities of the Kingdom and receives customer requests to provide them with services from all branches operating in the Kingdom and spread across all cities and regions. As part of the Bank's interest in this segment, the online application service has been launched through the Bank's website and a dedicated number for this segment has been added.

Number of training days for staff	348*
Number of training days for customers	4

* Aggregate of training received by all employees.

B. Quantitative Disclosures:

	On December 31, 2019				On December 31, 2018			
(in Saudi Riyals)	Micro	Small	Medium	Total	Micro	Small	Medium	Total
Loans to MSMEs – on balance sheet (SAR millions)	308	1,238	6,292	7,838	209	1,472	6,781	8,463
Loans to MSMEs – off balance sheet (SAR millions)	142	1,133	3,736	5,011	132	832	3,954	4,918
On balance sheet loans to MSMEs as a percentage of total on balance sheet loans	0.2%	1.0%	4.9%	6.1%	0.2%	1.2%	5.4%	6.8%
Off balance sheet loans to MSMEs as a percentage of total off balance sheet loans	0.3%	2.1%	7.0%	9.3%	0.2%	1.5%	7.3%	9.1%
Number of loans (on and off balance sheet)	1,202	932	1,538	3,672	1,259	945	1,636	3,840
Number of customers	908	602	660	2,170	974	618	696	2,288
Number of loans guaranteed by the Kafalah Program (on and off balance sheet)	1	57	24	82	0	51	5	56
Amount of loans guaranteed by the Kafalah Program (on and off balance sheet)	4	188	228	420	0	129.3	24.7	154

The number of secured funds is the number of guarantees issued. The total of secured funds is the total amount of the facilities in millions of Saudi Riyals.

(37) Ethical principles and professional foundations of the Banque Saudi Fransi:

The Principles of Conduct and Business Ethics document of Banque Saudi Fransi has been updated to comply with SAMA's Instructions issued No. 67/72203 related to the principles of conduct and business ethics in financial institutions that aim to enhance job discipline, integrity, transparency, objectivity, efficiency, loyalty and effectiveness in the behaviour of financial institutions employees.

This document includes the principles that govern the work process, which employees representing the bank, whether directly or indirectly, must adhere to, including but not limited to the following:

First: Code of Conduct and Professional Ethics:

- Commitment to working hours, integrity, good manners in personal dealings.
- Combatting financial and administrative corruption crimes and the employees' duties to accomplish that.
- Dealing with conflict of interest such as giving and receiving gifts, working for others and personal investment.
- Maintaining Confidentiality and Mechanisms for Disclosure of Information.
- Reporting Actual or Potential Violations.
- Safe and Contraband-Free Workplace.
- Fair dealings.
- Protection of Bank Assets.
- Validity of Financial Records and Reports.
- Compliance with Laws, Regulations, Directives and Policies.

Second: Acceptable Use Policies of Computer, E-mail and Internet Services:

Includes an extract of the cyber security acceptable use policy where all Banque Saudi Fransi users are responsible for complying with the cyber security policies, standards and procedures, including the acceptable use policy, unacceptable uses, and control and monitoring standards. It is the responsibility of the directors of the concerned departments or the director of the Information Security Department, in consultation with the Human Resources Group and the Regulatory Control Service, to assess non-compliance with these policies. Violations of these policies will be thoroughly examined and action will be taken based on the degree and seriousness of the violation.

Third: Consequences of failure to adhere to the principles of conduct and work ethics:

It is the responsibility of the Bank to verify the implementation of its Code of Conduct and Professional Ethics and to monitor and control any violations thereof. If the Bank employees do not adhere to these principles, the necessary measures will be taken and penalties shall be imposed in accordance with the internal work regulations and penalties of Banque Saudi Fransi.

(38) Communication with shareholders:

In accordance with the instructions issued by the regulatory and supervisory authorities, the Bank is keen to ensure that shareholders fully exercise their rights and urges them to actively participate and submit their inquiries during the General Assembly meetings. A telephone number and e-mail are also posted on the Bank's home page to receive inquiries from shareholders. The Bank also publishes any significant developments of the Bank through the Tadawul website, in accordance with the instructions issued in this regard. The Bank's representatives continuously participate in meetings and conferences with investors and shareholders.

(39) Actions taken by the Board of Directors to inform its members, especially non-executives, of shareholders' proposals and observations on the Bank and its performance:

The Board is keen to enable shareholders to exercise their rights and submit their comments and inquiries during the General Assembly meetings. These comments and inquiries shall be recorded in the minutes of the meeting. The Bank also allocates means of communication for shareholders (telephone, fax, postal address, e-mail) through which comments and inquiries of shareholders, if any, are received and then submitted to Board members at the first subsequent meeting of the Board of Directors, and this is included in the minutes of the meeting.

(40) Principles applied by the Bank in the area of corporate governance:

The Bank complies with all regulations and instructions issued by regulatory authorities on governance, such as the main principles of governance in banks operating in the Kingdom of Saudi Arabia issued by the Saudi Arabian Monetary Authority, the Corporate Governance Regulations issued by the Capital Markets Authority, and the Companies Law issued by the Ministry of Commerce and Investment. The Bank shall update the Articles of Association of the Bank, the regulations of the Board and its committees, and the Governance Manual, as well as its policies and procedures in accordance with these regulations and any updates or instructions issued in respect of governance.

(41) Implemented and non-implemented provisions of CMA Corporate Governance Regulations, and justifications thereof:

The Bank complied with all Corporate Governance Regulations issued by the Capital Markets Authority mandatory provisions. Guiding provisions that have not been applied from the Corporate Governance Regulations issued by the CMA are as follows:

Article/Paragraph No.		Article/Paragraph text	Reasons for non-application
1	Article (85) Employee Incentives Paragraphs (1) & (3)	The Company shall establish programs for developing and encouraging the participation and performance of the Company's employees. The programs shall particularly include the following: 1) forming committees or holding specialised workshops to hear the opinions of the Company's employees and discuss the issues and topics that are subject to important decisions; 3) Establishing social organizations for the benefit of the Company's employees.	Banque Saudi Fransi is currently in the process of establishing a Labor Committee for hearing employees' opinions, suggestions and ideas. Moreover, Banque Saudi Fransi periodically circulates surveys to employees for the purpose of hearing their opinions.
2	Article (95) Formation of a Corporate Governance Committee	In the event that the Board of Directors formed a Corporate Governance Committee, the Board of Directors shall charge it with the competencies established under Article (94) of these Regulations. The Committee shall follow up any matters relating to the application of governance and provide the Board of Directors, at least annually, with its reports and recommendations.	Banque Saudi Fransi did not form a Governance committee. However, Legal and Governance Group review all issues related to governance applications and submits its recommendations and reports to the Board of Directors.

In conclusion, the Board of Directors of the Banque Saudi Fransi expresses its sincere thanks and appreciation to the Custodian of the Two Holy Mosques, His Highness the Crown Prince and to our rational government. We extend our thanking to the Ministry of Finance, the Ministry of Commerce and Investment, the Saudi Arabian Monetary Authority and the Capital Market Authority for their continuous help and support towards raising the level of banking services. We also thank our valued shareholders and customers of the Bank for their trust, which is respected and appreciated. The Board of Directors also thanks all employees of the Bank for their sincere efforts.

Investing in the future

With continued revenue growth, reduced impairment charges and a strong balance sheet, despite increasingly complex and volatile market conditions in the Kingdom and beyond, we took significant strides during the year towards our goal of achieving and sustaining 10% market share in the Kingdom.

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

KPMG Al Fozan & Partners
Certified Public Accountants

Opinion
We have audited the consolidated financial statements of Banque Saudi Fransi (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

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

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

The key audit matter	How the matter was addressed in our audit
Impairment of loans and advances At 31 December 2019, the gross loans and advances of the Group were SAR 129.4 billion against which an impairment allowance of SAR 3.7 billion was maintained. We considered impairment of loans and advances as a key audit matter as the determination of expected credit loss ("ECL") involves significant management judgement and this has a material impact on the consolidated financial statements of the Group. The key areas of judgement include: – Categorisation of loans and advances in Stage 1, 2 and 3 based on identification of: (a) exposures with a significant increase in credit risk since their origination; and (b) individually impaired / default exposures. – Assumptions used in the ECL model such as financial condition of counterparty, expected future cash flows, forward looking macroeconomic factors etc. – The need to apply additional overlays to reflect current or future external factors that might not be captured by the expected credit loss model.	We have obtained an understanding of management's assessment of impairment of loans and advances, the Group's internal rating model, the Group's impairment allowance policy and the ECL modelling methodology. We compared the Group's impairment allowance policy and ECL methodology with the requirements of IFRS 9. We assessed the design and implementation, and tested the operating effectiveness of controls over: – the modelling process including governance over monitoring of the model and approval of key assumptions; – the classification of borrowers in various stages and timely identification of significant increase in credit risk "SICR" and determination of default or individually impaired exposures; and – integrity of data input into the ECL model.

The key audit matter	How the matter was addressed in our audit
Impairment of loans and advances continued *Refer to the significant accounting policies note 3E to the consolidated financial statements relating to impairment of financial assets, note 2 (d) (i) which contains the disclosure of critical accounting judgement, estimates and assumptions relating to impairment losses on financial assets and the impairment assessment methodology used by the Group, note 7 which contains the disclosure of impairment against loans and advances and note 32 (b) for details of credit quality analysis and key assumptions and factors considered in determination of ECL.*	We assessed the Group's criteria for determination of SICR and identification of impaired / default exposures and their classification into stages. For a sample of customers, we assessed: – the internal ratings determined by the management based on Group's internal rating model and ensured that these ratings were in line with the ratings used in the ECL model; – the staging as identified by management; and – management's computations for ECL. We assessed the underlying assumptions including forward looking assumptions used by the Group in ECL calculations. Where management overlays were used, we assessed those overlays and the governance process around such overlays. We checked the completeness of data underlying the ECL calculation as at 31 December 2019 Where relevant, we involved specialists to gain comfort on model design, resultant ECL calculations and data integrity. We assessed the disclosures included by management in the consolidated financial statements.
Fees and commission income In connection with granting loans / facilities, the Group charges transaction and service fees. Such fees are to be deferred and amortised over the lives of the respective loans / facilities within the consolidated statement of income. However, due to the volume of transactions, such fees, up to a certain threshold, are recognised upfront based on certain judgments and assumptions. We considered this as a key audit matter since the use of management judgments and assumptions could impact fees and commission income and special commission income. *Refer to the significant accounting policies note 3Q to the consolidated financial statements.*	We assessed the design and implementation and tested the operating effectiveness of the key controls over the setting of assumptions and judgments and their application. We obtained management's assessment of the impact of use of assumptions and judgments on fees and commission income and: – On a test basis, traced the data and information used by the management to the source documents. – Assessed management's estimation of the impact of the use of assumptions and judgments on the recognition of fee and commission income.

Independent Auditors' Report continued

on the Audit of the Consolidated Financial Statements
To the Shareholders of Banque Saudi Fransi (A Saudi Joint Stock Company)

The key audit matter	How the matter was addressed in our audit
Valuation of Derivatives The Group has entered into commission rate swaps (CRS), forward foreign exchange contracts and certain structured derivative contracts. Such derivatives are recorded at fair value within the consolidated financial statements. CRS, forward foreign exchange contracts and structured derivative contracts are over the counter (OTC) derivatives, and hence, the valuation of these contracts is subjective as it takes into account a number of assumptions and model calibrations. Structured derivatives are fully back to back with no exposure of the Group due to the change in fair value in the consolidated statement of income. These derivatives are held for trading, however, the Group also utilises certain CRS for cash flow hedge accounting purposes in the consolidated financial statements for hedging the cash flow risks. An inappropriate valuation of derivatives could have a material impact on the consolidated financial statements. We considered this as key audit matter as there is complexity and subjectivity involved in determining the fair value of such contracts. *Refer to the significant accounting policies note 3M to the consolidated financial statements, and note 11, which explains the derivative positions and the valuation methodology, used by the Group.*	We assessed the design and implementation, and tested the operating effectiveness of the key controls over management's processes for valuation of derivatives including the testing of relevant controls covering the fair valuation process for derivatives. We selected a sample of derivatives and: – Tested the accuracy of the particulars of the derivatives by comparing the terms and conditions with relevant agreements and deal confirmations; – Checked the accuracy and appropriateness of the key inputs used in the valuation models; and – Involved valuation specialists to perform an independent valuation of the derivatives and compared the results with management's valuation methodology. We assessed the disclosures included by management in the consolidated financial statements.

Other Information

The Board of Directors of the Bank (the Directors) are responsible for the other information. The other information comprises of the information included in the annual report, but does not include the consolidated financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain jointly responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

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

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February 11, 2020
(Corresponding to 17 Jumada Al-Akhirah 1441H)

PRICEWATERHOUSECOOPERS
CERTIFIED PUBLIC ACCOUNTANTS
LICENSE NO. 25
C.R. 1010371622

KPMG
C.R. 46
Certified Public Accountants
KPMG Al Fozan & Partners

Consolidated Statement of Financial Position

As at December 31, 2019 and 2018

SAR '000	Notes	2019	2018 (Restated)
ASSETS			
Cash and balances with SAMA	4	**9,117,336**	20,925,860
Due from banks and other financial institutions	5	**3,742,090**	15,938,529
Investments, net	6	**31,453,779**	28,371,980
Positive fair value of derivatives	11	**4,606,551**	1,932,464
Loans and advances, net	7	**125,725,096**	120,631,634
Investment in associates	8	**9,695**	9,695
Property and equipment, net	9	**1,324,567**	690,369
Other real estate		**406,151**	463,509
Deferred tax	28	**42,937**	49,571
Other assets	10	**1,720,375**	1,236,666
Total assets		**178,148,577**	190,250,277
LIABILITIES AND EQUITY			
Liabilities			
Due to banks and other financial institutions	12	**2,372,140**	2,145,481
Customers' deposits	13	**132,837,502**	148,368,004
Negative fair value derivative	11	**3,069,406**	1,414,128
Debt securities and sukuks	14	**–**	2,003,340
Other liabilities	15	**6,922,811**	5,457,374
Total liabilities		**145,201,859**	159,388,327
Equity			
Share capital	16	**12,053,572**	12,053,572
Statutory reserve	17	**12,053,572**	12,053,572
General reserve	17	**982,857**	982,857
Other reserves	18	**812,222**	(318,304)
Retained earnings		**5,945,881**	5,249,613
Proposed dividend	27	**1,199,679**	958,081
Treasury shares	37	**(101,065)**	(117,441)
Total equity		**32,946,718**	30,861,950
Total liabilities and equity		**178,148,577**	190,250,277

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

Consolidated Statement of Income

For the years ended December 31, 2019 and 2018

SAR '000	Notes	2019	2018 (Restated)
Special commission income	20	**7,369,530**	6,947,576
Special commission expense	20	**2,163,853**	1,930,704
Net special commission income		**5,205,677**	5,016,872
Fee and commission income	21	**1,504,211**	1,402,549
Fee and commission expense	21	**364,705**	307,046
Net fee and commission income		**1,139,506**	1,095,503
Exchange income, net		**335,504**	347,173
Trading income, net	22	**92,163**	194,257
Dividend income	23	**2,442**	896
Gains/(losses) on FVOCI	24	**31,456**	(23,481)
Gains on sale of associate	8	**–**	97,310
Other operating income	25	**65,802**	70,114
Total operating income		**6,872,550**	6,798,644
Salaries and employee related expenses	30	**1,329,250**	1,379,980
Rent and premises related expenses		**75,796**	167,784
Depreciation and amortization	9	**211,284**	154,166
Other operating and general and administrative expenses		**670,834**	589,395
Total operating expenses before impairment charge		**2,287,164**	2,291,325
Impairment charge for credit losses, net	7	**1,008,567**	910,499
Impairment charge for associate	8	**–**	32,500
Impairment (reversal)/charge for investments and other financial assets, net	7	**(42,323)**	259,795
Total operating expenses, net		**3,253,408**	3,494,119
Net operating income		**3,619,142**	3,304,525
Share in earnings of associates, net	8	**–**	2,529
Net income for the year before zakat and income tax		**3,619,142**	3,307,054
Zakat and income tax for the year	28	**504,176**	1,904,038
Net income for the year after zakat and income tax		**3,114,966**	1,403,016
Basic and diluted earnings per share (SAR)	26	**2.60**	1.17

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

As at December 31, 2019 and 2018

SAR '000	Notes	2019	2018 (Restated)
Net income for the year after zakat and income tax		**3,114,966**	1,403,016
Other comprehensive income/(loss):			
Items that cannot be recycled back to consolidated statement of income in subsequent periods			
Movement in fair value reserve (equity instruments)			
Net change in the fair value	18	**(8,584)**	(9,330)
Loss transferred to retained earning	18	**1,202**	–
Items that can be recycled back to consolidated statement of income in subsequent periods			
Debt instruments at fair value through other comprehensive income			
Net change in the fair value	18	**116,762**	(34,055)
(Income)/loss transferred to consolidated statement of income	18	**(31,456)**	23,481
Cash flow hedge			
Net change in the fair value	18	**1,006,117**	58,420
Loss/(income) transferred to consolidated statement of income	18	**46,485**	(71,648)
Total comprehensive income for the year after zakat and income tax		**4,245,492**	1,369,884

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the years ended December 31, 2019 and 2018

SAR '000	Notes	Share capital	Statutory reserve	General reserve	Retained earnings	Other reserves FVOCI	Other reserves Cash flow hedge	Proposed dividend	Treasury shares	Total
2019										
Balance at the beginning of the year		**12,053,572**	**12,053,572**	**982,857**	**5,249,613**	**(9,786)**	**(308,518)**	**958,081**	**(117,441)**	**30,861,950**
Impact of adopting IFRS 16 as at 01 January 2019	3	**–**	**–**	**–**	**(62,666)**	**–**	**–**	**–**	**–**	**(62,666)**
Restated balance as at 1 January 2019		**12,053,572**	**12,053,572**	**982,857**	**5,186,947**	**(9,786)**	**(308,518)**	**958,081**	**(117,441)**	**30,799,284**
Net income for the year after zakat and income tax		**–**	**–**	**–**	**3,114,966**	**–**	**–**	**–**	**–**	**3,114,966**
Net change in the fair value	18	**–**	**–**	**–**	**–**	**108,178**	**1,006,117**	**–**	**–**	**1,114,295**
Loss on disposal of FVOCI investment - equity	18	**–**	**–**	**–**	**(1,202)**	**1,202**	**–**	**–**	**–**	**–**
Net amount transferred to consolidated statement of income	18	**–**	**–**	**–**	**–**	**(31,456)**	**46,485**	**–**	**–**	**15,029**
Final net dividend paid for 2018	27	**–**	**–**	**–**	**–**	**–**	**–**	**(958,081)**	**–**	**(958,081)**
Interim net dividend paid for 2019	27	**–**	**–**	**–**	**(1,155,151)**	**–**	**–**	**–**	**–**	**(1,155,151)**
Final proposed net dividend for 2019	27	**–**	**–**	**–**	**(1,199,679)**	**–**	**–**	**1,199,679**	**–**	**–**
Net change in treasury shares	37	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**16,376**	**16,376**
Balance at the end of the year		**12,053,572**	**12,053,572**	**982,857**	**5,945,881**	**68,138**	**744,084**	**1,199,679**	**(101,065)**	**32,946,718**
2018										
Balance at the beginning of the year		12,053,572	12,053,572	982,857	6,628,963	10,118	(295,290)	355,237	(127,648)	31,661,381
Impact of adopting IFRS 9 as at 01 January 2018		–	–	–	(862,875)	–	–	–	–	(862,875)
Impact of adopting IAS 12 as at 01 January 2018	28	–	–	–	66,794	–	–	–	–	66,794
Restated balance as at 1 January 2018		12,053,572	12,053,572	982,857	5,832,882	10,118	(295,290)	355,237	(127,648)	30,865,300
Net income for the year after zakat and income tax (restated)		–	–	–	1,403,016	–	–	–	–	1,403,016
Net change in the fair value	18	–	–	–	–	(43,385)	58,420	–	–	15,035
Net amount transferred to consolidated statement of income	18	–	–	–	–	23,481	(71,648)	–	–	(48,167)
Final net dividend paid for 2017	27	–	–	–	–	–	–	(355,237)	–	(355,237)
Interim net dividend paid for 2018	27	–	–	–	(1,028,204)	–	–	–	–	(1,028,204)
Final proposed net dividend for 2018	27	–	–	–	(958,081)	–	–	958,081	–	–
Net change in treasury shares	37	–	–	–	–	–	–	–	10,207	10,207
Balance at the end of the year		12,053,572	12,053,572	982,857	5,249,613	(9,786)	(308,518)	958,081	(117,441)	30,861,950

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the years ended December 31, 2019 and 2018

SAR '000	Note	2019	2018
OPERATING ACTIVITIES			
Net income for the year before zakat and income tax		**3,619,142**	3,307,054
Adjustments to reconcile net income to net cash from operating activities:			
Accretion of (premium) on investments not held as FVIS, net		**(72,443)**	(19,967)
Gains on sale of associate		**–**	(97,310)
(Gains)/losses on FVOCI		**(31,456)**	23,481
Depreciation and amortization	9	**211,284**	154,166
Gains on disposal of property and equipment, net		**(432)**	(222)
Impairment charge for credit losses, net	7	**1,008,567**	910,499
(Reversal)/charge of impairment charge for investments and other financial assets, net		**(42,323)**	292,295
Share in earnings of associates, net	8	**–**	(2,529)
Long term incentive scheme provision		**16,376**	14,893
Valuation loss on other real estate		**57,358**	40,804
Change in fair value of financial instruments		**22**	(1,677)
Operating income before changes in operating assets and liabilities		**4,766,095**	4,621,487
Net (increase)/decrease in operating assets:			
Statutory deposit with SAMA ("Saudi Arabian Monetary Authority")	4	**303,442**	485,250
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		**3,377,000**	73,000
Investments held as FVIS, trading		**281,336**	(226,058)
Loans and advances		**(6,102,029)**	(331,319)
Other assets		**(2,040,350)**	53,973
Net increase/(decrease) in operating liabilities:			
Due to banks and other financial institutions		**226,659**	(817,792)
Customers' deposits		**(15,530,502)**	(2,586,183)
Other liabilities		**2,458,417**	(582,142)
Net cash (used in)/generated from operating activities		**(12,259,932)**	690,216
INVESTING ACTIVITIES			
Proceeds from sales and maturities of investment not held as FVTPL		**9,023,082**	5,127,690
Purchase of investments not held as FVTPL		**(12,186,738)**	(7,894,452)
Proceeds from sale of investment in associate		**–**	81,269
Acquisition of property and equipment		**(122,444)**	(107,707)
Proceeds from sale of property and equipments		**1,118**	321
Net cash used in investing activities		**(3,284,982)**	(2,792,879)
FINANCING ACTIVITIES			
Dividends paid	27	**(2,113,232)**	(1,383,441)
Zakat and income tax paid		**(669,227)**	(235,251)
Purchase of treasury shares		**–**	(4,686)
Repayment of debt securities and sukuks		**(2,000,000)**	–
Net cash used in financing activities		**(4,782,459)**	(1,623,378)
Decrease in cash and cash equivalents		**(20,327,373)**	(3,726,041)
Cash and cash equivalents at the beginning of the year		**23,989,879**	27,715,920
Cash and cash equivalents at the end of the year	29	**3,662,506**	23,989,879
Special commission received during the year		**7,472,392**	6,830,865
Special commission paid during the year		**2,144,156**	1,784,031
Supplemental non-cash information			
Net changes in fair value and transfers to consolidated statement of income		**1,130,526**	(33,132)

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

1. General

Banque Saudi Fransi (the Bank) is a Saudi Joint Stock Company established by Royal Decree No. M/23 dated Jumada Al Thani 17, 1397H (corresponding to June 4, 1977). The Bank formally commenced its activities on Muharram 1, 1398H (corresponding to December 11, 1977), by taking over the branches of the Banque de l'Indochine et de Suez in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration Number 1010073368 dated Safar 4, 1410H (corresponding to September 5, 1989), through its 87 branches (2018: 86 branches) in the Kingdom of Saudi Arabia, employing 2,998 people (2018: 3,027 people).

The objective of the Bank is to provide a full range of banking services, including Islamic products, which are approved and supervised by an independent Shariah Board. The Bank's Head Office is located at King Saud Road, P.O. Box 56006, Riyadh 11554, Kingdom of Saudi Arabia.

The Bank owns a subsidiary, Saudi Fransi Capital (100% share in equity) engaged in brokerage, asset management and corporate finance business. The Bank also owns Saudi Fransi Insurance Agency (SAFIA), Saudi Fransi for Finance Leasing and Sofinco Saudi Fransi having 100% share in equity. The Bank owns 100% (95% direct ownership and 5% indirect ownership through its subsidiary) share in Sakan Real Estate Financing. These subsidiaries are incorporated in the Kingdom of Saudi Arabia.

The Bank also formed a subsidiary, BSF Markets Limited registered in Cayman Islands having 100% share in equity. The objective of this company is derivative trading and Repo activities.

The Bank has investment in associate and owns 27% shareholding in Banque BEMO Saudi Fransi, incorporated in Syria.

2. Basis of preparation

a) Statement of compliance

The consolidated financial statements of the Bank have been prepared:

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

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

The consolidated financial statements of the Group as at and for the period and year ended 31 March 2019 and 31 December 2018, respectively, were prepared in compliance with the International Financial Reporting Standards ("IFRS") respectively, as modified by SAMA for the accounting of zakat and income tax (relating to the application of IAS 12 – "Income Taxes" and IFRIC 21 – "Levies" so far as these relate to zakat and income tax) and the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia.

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

Accordingly, the Group changed its accounting treatment for zakat and income tax by retrospectively adjusting the impact in line with International Accounting Standard 8 Accounting Policies, Changes in Accounting Estimates and Errors and the effects of this change are disclosed in note 28 to the consolidated financial statements. The Bank has adopted IFRS 16 Leases from 1 January 2019. The change in accounting policies due to these are disclosed in note 3.

b) Basis of measurement and presentation

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives, financial instruments held at Fair Value through Profit or Loss (FVTPL), FVOCI investments, liabilities for cash-settled-share based payments, defined benefit obligations and financial assets or liabilities that are hedged in a fair value hedging relationship, and otherwise adjusted to record changes in fair value attributable to the risks that are being hedged.

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

c) Functional and presentation currency

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

Notes to the Consolidated Financial Statements continued

For the years ended December 31, 2019 and 2018

2. Basis of preparation continued

d) Critical accounting judgments, estimates and assumptions

The preparation of the consolidated financial statements in conformity with IFRS as endorsed in the KSA and other standards and pronouncements issued by SOCPA, requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Such judgements, estimates, and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

(i) Impairment losses on financial assets

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

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

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

ii) Fair value Measurement (note 35)

iii) Impairment of FVOCI debt investments (note 32)

iv) Impairment of investment held at amortised cost (note 32)

v) Classification of investments at amortised cost (note 3.2A)

3. Summary of significant accounting policies

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

3.1 Change in accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2018 except for the adoption of new accounting treatment of Zakat & Income Tax and adoption of IFRS 16 (leases), these amendments and adoption has had no material impact on the consolidated financial statements of the Group on the current period or prior periods and is expected to have an insignificant effect in future periods.

Adoption of new standards

Effective from 1 January 2019 the Group has adopted one new accounting standard and an amendment to the accounting treatment for Zakat & Income Tax, the impact of the amendment and adoption of these standards are explained below:

IFRS 16 Leases

Before January 01, 2019, the Bank follows Accounting for leases:

(i) Where the Bank is the lessee

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

(ii) Where the Bank is the lessor

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

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

IFRS 16 was issued in January 2016 and is effective for annual periods commencing on or after 1 January 2019. IFRS 16 stipulates that all leases and the associated contractual rights and obligations should generally be recognise in the Bank's Financial Position, unless the term is 12 months or less or the lease for low value asset. Thus, the classification required under IAS 17 "Leases" into operating or finance leases is eliminated for Lessees. For each lease, the lessee recognises a liability for the lease obligations incurred in the future. Correspondingly, a right to use the leased asset is capitalised, which is generally equivalent to the present value of the future lease payments plus directly attributable costs, which is amortised over the useful life.

The Bank has opted for the modified retrospective application permitted by IFRS 16 upon adoption of the new standard. During the first time application of IFRS 16 to operating leases, the right to use the leased assets was generally measured at the amount of lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018, using the interest rate at the time of first time application. The net impact on retained earnings on 01 January 2019 was a decrease of SAR 63 million.

Reconciliation of Lease Liabilities

	SAR '000
Off-balance sheet lease obligations (with extended period) as of December 31, 2018	952,870
Current leases with a lease term of 12 months or less & low-value leases	(247)
Operating lease obligations as of January 1, 2019 (gross without discounting)	**952,623**
Discounting to present value	**(274,371)**
Operating lease obligations as of January 1, 2019 (net, discounted)	**678,252**

Lease Liabilities

Maturity Analysis – Contractual Undiscounted cash flows

SAR '000	2019
Less than one year	**83,267**
One to five years	**374,312**
More than five years	**573,820**
Total undiscounted lease liabilities at 31 December	**1,031,399**
Lease liabilities included in the statement of financial position at 31 December	
Current	**48,637**
Non-Current	**663,251**

The Bank applied the weighted average incremental borrowing rate to lease liabilities recognised in the statement of financial position at the date of initial application.

The Bank has lease contracts for Branch premises, ATM premises and leasehold improvements thereon. The Right of Use Asset (including prepaid rent) recognised by the Bank as at 1 January 2019 amounted to SAR 653 million. The net impact on retained earnings, due to adoption of IFRS 16, on 01 January 2019 was a decrease of SAR 63 million.

Right of Use assets have been presented as part of property and equipment, net and lease liability has been included under other liabilities on the statement of financial position.

Notes to the Consolidated Financial Statements continued
For the years ended December 31, 2019 and 2018

3. Summary of significant accounting policies continued
3.1 Change in accounting policies continued
Zakat & Income Tax

Change in accounting for zakat & income tax

As mentioned in note 2, the basis of preparation has been changed beginning the period ended 30 June 2019 as a result of the issuance of latest instructions from SAMA dated 17 July 2019. Previously, zakat and income tax were recognised in the statement of changes in equity as per the SAMA circular no 381000074519 dated 11 April 2017. With the latest instructions issued by SAMA dated 17 July 2019, zakat and income tax shall be recognised in the statement of income. The Group has accounted for this change in the accounting for zakat and income tax retrospectively and the effects of the above change are disclosed in note 28 to the consolidated financial statements. The change has resulted in reduction of reported income of the Group for the year ended 31 December 2018 by SAR 1,904 million. The change has had no impact on the statement of cash flows for the year ended 31 December 2019.

3.2 Accounting policies
A. Classification of financial assets
On initial recognition, a financial asset is classified into following categories: amortised cost, FVOCI or FVTPL.

Financial asset at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial Asset at FVOCI

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:
- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

Financial asset at FVTPL

All other financial assets are classified as measured at FVTPL.

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

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

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:
- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets
- how the performance of the portfolio is evaluated and reported to the Bank's management
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank changes the classification of the remaining financial assets held in that business model.

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

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

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:
- contingent events that would change the amount and timing of cash flows
- leverage features
- prepayment and extension terms
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements) and
- features that modify consideration of the time value of money e.g. periodical reset of interest rates.

Designation at fair value through profit or loss

At initial recognition, the Bank has irrevocably designated certain financial assets at FVTPL to eliminate or significantly reduces the accounting mismatch. Before 1 January 2018, the Bank also designated certain financial assets as at FVTPL because the assets were managed, evaluated and reported internally on a fair value basis.

B. Classification of financial liabilities
All money market deposits, customer deposits, term loans, subordinated debts and other debt securities in issue are initially recognised at fair value less transaction costs.

Subsequently all commission bearing financial liabilities other than those held at FVIS or, where fair values have been hedged, are measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium. Premiums are amortised and discounts are accreted on an effective yield basis to maturity and taken to special commission expense.

Financial liabilities classified as FVTPL using fair value option, if any, after initial recognition, for such liabilities, changes in fair value related to changes in own credit risk are presented separately in OCI and all other fair value changes are presented in the income statement.

Amounts in OCI relating to own credit are not recycled to the income statement even when the liability is derecognised and the amounts are realised.

Financial guarantees and loan commitments that the Bank choose to measure at fair value through profit or loss will have all fair value movements recognised in profit or loss.

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the EIR.

C. Derecognition
Financial assets

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

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

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

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

Notes to the Consolidated Financial Statements continued

For the years ended December 31, 2019 and 2018

3. Summary of significant accounting policies continued

3.2 Accounting policies continued

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

The Bank securitises various loans and advances to customers and investment securities, which generally result in the sale of these assets to unconsolidated securitisation vehicles and in the Bank transferring substantially all of the risks and rewards of ownership. The securitisation vehicles in turn issue securities to investors. Interests in the securitised financial assets are generally retained in the form of senior or subordinated tranches, interest-only strips or other residual interests (retained interests). Retained interests are recognised as investment securities and carried at FVOCI. Gains or losses on securitisation are recorded in other revenue.

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

Financial liabilities

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

D. Modifications of financial assets and financial liabilities

Financial assets

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

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

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

E. Impairment

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:
- financial assets that are debt instruments
- lease receivables
- financial guarantee contracts issued
- loan commitments issued
- bank balances
- related party balances

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:
- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

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

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

Measurement of ECL

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

Restructured financial assets

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

If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

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

Evidence that a financial asset is credit-impaired includes the following observable data:
- significant financial difficulty of the borrower or issuer
- a breach of contract such as a default or past due event
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

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

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

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:
- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

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

Notes to the Consolidated Financial Statements continued

For the years ended December 31, 2019 and 2018

3. Summary of significant accounting policies continued

3.2 Accounting policies continued

F. Financial guarantees and loan commitments

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

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. Subsequently, they are measured as follows:
- at the higher of this amortised amount and the amount of loss allowance; and

The Bank has issued no loan commitments that are measured at FVTPL. For other loan commitments:
- the Bank recognises loss allowance (Refer note 7 "Impairment Disclosures);

G. Revenue/expenses recognition

Special commission income and expenses

Special commission income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or the amortised cost of the financial instrument.

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

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

Measurement of amortised cost and special commission income and expense

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

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

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

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

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

H. Rendering of services

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

The Bank has concluded that revenue from rendering of various services related to Share trading and fund management, Trade finance, Corporate finance and advisory and other banking services, should be recognised at the point when services are rendered i.e. when performance obligation is satisfied. Whereas for fee services related to credit card, the Bank recognises revenue over the period of time.

I. Customer Loyalty Program

The Bank offers customer loyalty program (reward points/air miles herein referred to as "reward points"), which allows card members to earn points that can be redeemed for certain Partner outlets. The Bank allocates a portion of transaction price (interchange fee) to the reward points awarded to card members, based on the relative stand alone selling price. The amount of revenue allocated to reward points is deferred and released to the income statement when reward points are redeemed.

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

J. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries (the Group) i.e. Saudi Fransi Capital, Saudi Fransi Insurance Agency, Saudi Fransi for Finance Leasing, Sakan real estate financing, Sofinco Saudi Fransi and BSF markets Limited. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies.

Reclassifications have been made wherever necessary to the financial statements of the subsidiaries to bring them in line with the Bank's consolidated financial statements.

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

Control is achieved when the Group 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.

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 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
- tights arising from other contractual arrangements
- 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 of the subsidiary. The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated statement of income from the effective date of the acquisition or up to the effective date of disposal, as appropriate.

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

Balances between the Bank and its subsidiaries including any income and expenses arising from intra-group transactions, are eliminated in preparing these consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(i) List of significant subsidiaries

The table below provides details of the major subsidiaries of the Group:

Name of the subsidiary	Principal place of business	Ownership interest 2019	2018
Saudi Fransi Capital	K.S.A.	**100%**	100%
Saudi Fransi Insurance Agency	K.S.A.	**100%**	100%
Saudi Fransi for Finance Leasing	K.S.A.	**100%**	100%
Sakan Real Estate Financing	K.S.A.	**100%**	100%

Apart from the above subsidiaries, the Bank also owns BSF Markets Limited and BSF Sukuk Limited having 100% share in equity, incorporated in the Cayman Islands. Sofinco Saudi Fransi has no material impact on the Group financial statements.

(ii) Significant restriction

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which banking subsidiaries operate.

Notes to the Consolidated Financial Statements continued

For the years ended December 31, 2019 and 2018

3. Summary of significant accounting policies continued

3.2 Accounting policies continued

K. Investment in associates

Investments in associates are initially recognised at cost and subsequently accounted for under the equity method of accounting.

An associate is an entity in which the Bank holds 20% to 50% of the voting power and over which it has significant influence (but not control), over financial and operating policies and which is neither a subsidiary nor a joint venture.

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

When the Bank ceases to equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate or financial asset.

L. Settlement and trade date accounting

All regular way purchases and sales of financial assets are recognised and derecognised in the consolidated statement of financial position on the settlement date i.e. the date on which the asset is acquired from or delivered to the counter party. The Bank accounts for any change in fair value which is recognised from the trade date.

Regular purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or follow convention in the market place.

All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

M. Derivatives financial instruments and hedge accounting

Derivative financial instruments including forward foreign exchange contracts, commission rate futures, forward rate agreements, currency and commission rate swaps, and currency and commission rate options (both written and purchased) are measured at fair value. All derivatives are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models and pricing models, as appropriate.

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

(i) Derivatives held for trading

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to the consolidated statement of income and disclosed in net trading income. Derivatives held for trading also include those derivatives, which do not qualify for hedge accounting.

(ii) Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Bank accounts for an embedded derivative separately from the host contract when:

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

Separated embedded derivatives are measured at fair value. with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship.

For financial assets, the requirements are whether the financial asset contains contractual terms that give rise on specified date to cashflows that are SPPI, and consequently the accounting of embedded derivatives are not applicable to financial assets.

(iii) Hedge accounting

The Group designates certain derivatives as hedging instruments in qualifying hedging relationships to manage exposures to interest rate, foreign currency, and credit risks, including exposures arising from highly probable forecast transactions and firm commitments. In order to manage particular risk, the bank applies hedge accounting for transactions that meet specific criteria.

For the purpose of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability, (or assets or liabilities in case of portfolio hedging), or an unrecognised firm commitment or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the reported net gain or loss; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or to a highly probable forecasted transaction that will affect the reported net gain or loss.

In order to qualify for hedge accounting, the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At inception of the hedge, the risk management objective and strategy is documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting.

A formal assessment is undertaken by comparing the hedging instrument's effectiveness in offsetting the changes in fair value or cash flows attributable to the hedged risk in the hedged item, both at inception and at each quarter end on an ongoing basis. Prospective testing is performed mainly through matching the critical terms of both hedge item and instrument.

A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated were offset by the hedging instrument in a range of 80% to 125% and were expected to achieve such offset in future periods. Hedge ineffectiveness is recognised in the income statement in 'Net trading income'. For situations where the hedged item is a forecast transaction, the Bank also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the statement of income.

Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect statement of income, any gain or loss from re-measuring the hedging instruments to fair value is recognised immediately in the statement of income together with change in the fair value of the hedged item attributable to the hedged risk under non-trading gains / losses in the statement of income.

For hedged items measured at amortised cost, where the fair value hedge of a commission bearing financial instrument ceases to meet the criteria for hedge accounting or is sold, exercised or terminated, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the effective commission rate method, (the hedge item is also fair-valued). If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated statement of income.

Cash flow hedges

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

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

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

N. Foreign currencies

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

Notes to the Consolidated Financial Statements continued

For the years ended December 31, 2019 and 2018

3. Summary of significant accounting policies continued

3.2 Accounting policies continued

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

All differences arising on non-trading activities are taken to other non-operating income in the statement of income, with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in foreign entity.

Foreign currency differences arising from the translation of the following items are recognised in OCI:
- equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI; and
- qualifying cash flow hedges to the extent that the hedge is effective.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

As at the reporting date, the assets and liabilities of foreign operations are translated into Saudi Arabian Riyals at the rate of exchange as at the statement of financial position date, and their statement of incomes are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are recognised in other comprehensive income.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to the statement of income as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests.

When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to the statement of income.

O. Offsetting financial instruments

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

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

P. Exchange income/(loss)

Exchange income/(loss) is recognised as discussed in foreign currencies policy above.

Q. Fees and commission income

Fees and commissions are recognised when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred and, together with the related direct costs, are recognised as an adjustment to the effective yield on the loan. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportionate basis. Fees received on asset management, wealth management, financial planning, custody services and other similar services that are provided over an extended period of time, are recognised over the period when the service is being provided. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period. Other fees and commission expense, which relate mainly to transaction and service fees, are expensed as the services are received.

R. Dividend income

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

S. Trading income/(loss)

Net income from other financial instruments at FVTPL relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedge relationships, financial assets and financial liabilities designated as at FVTPL.

Results arising from trading activities include all gains and losses from changes in fair values, related special commission income or expense including dividends for financial assets and financial liabilities held for trading and foreign exchange differences. This includes any ineffectiveness recorded in hedging transactions.

T. Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the statement of financial position as the Bank retains substantially all the risks and rewards of ownership. When substantially all the risks and rewards of ownership remain with the Bank. These assets are continued to measure in accordance with related accounting policies for investments held as FVTPL, FVOCI and other investments held at amortised cost. The transactions are treated as collateralised borrowing and counter-party liability for amounts received under these agreements is included in "Due to SAMA" or "Due to banks and other financial institutions" or "Customer deposits", as appropriate. The difference between sale and repurchase price is treated as special commission expense and accrued over the life of the repo agreement on an effective yield basis. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognised in the statement of financial position, as the Bank does not obtain control over the assets. Amounts paid under these agreements are included in "Cash and balances with SAMA", "Due from banks and other financial institutions" or "Loans and advances", as appropriate. The difference between purchase and resale price is treated as special commission income and accrued over the life of the reverse repo agreement on an effective yield basis.

U. Fair value measurement

The Group measures financial instruments, such as, derivatives and equity instruments and non-financial assets such as investment properties, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in note 35.

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 by the Group.

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

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, 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 financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements 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 reporting period.

The Group's valuation committee determines the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted FVOCI financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operation. The valuation committee comprises of the head of the investment properties segment, heads of the Group's internal mergers and acquisition team, the head of the risk management department, chief finance officer and the managers of each property.

External valuers are involved for valuation of significant assets, such as properties and FVOCI financial assets, and significant liabilities, such as contingent consideration. Involvement of external valuers is decided upon annually by the valuation committee after discussion with and approval by the Banks audit committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Valuers are normally rotated every three years. The valuation committee decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the valuation committee analyses 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 valuation committee verifies the major inputs applied in the latest valuation by agreeing to the information in the valuation computation to contracts and other relevant documents.

Notes to the Consolidated Financial Statements continued

For the years ended December 31, 2019 and 2018

3. Summary of significant accounting policies continued

3.2 Accounting policies continued

The valuation committee, in conjunction with the Group's external valuers, also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

On an interim basis, the valuation committee and the Group's external valuers present the valuation results to the audit committee and the Group's independent auditors. This includes a discussion of the major assumptions used in the valuations.

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

V. Other real estate

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

Subsequent to initial recognition, any subsequent write down to fair value, less costs to sell, are charged to the consolidated statement of income. Any subsequent revaluation gain in the fair value less costs to sell of these assets to the extent this does not exceed the cumulative write down is recognised in the statement of income. Gains or losses on disposal are recognised in the statement of income.

Collateral valuation

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

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

Collateral repossessed

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

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

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

W. Property and equipment

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

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

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

Buildings	33 years
Leasehold improvements	Over the lease period or economic life whichever is shorter
Furniture, equipment and vehicles	4 to 10 years
Software programme and automation project	2 to 5 years

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

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

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

X. Provisions

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

Provisions for liabilities and charges

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

Y. Accounting for leases

Right of Use Asset/Lease Liabilities

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

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Right of Use Assets

Bank apply cost model, and measure right of use asset at cost;

I. less any accumulated depreciation and any accumulated impairment losses; and
II. adjusted for any re-measurement of the lease liability for lease modifications.

Lease Liability

On initial recognition, the lease liability is the present value of all remaining payments to the lessor, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

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

I. increasing the carrying amount to reflect interest on the lease liability
II. reducing the carrying amount to reflect the lease payments made and;
II. re-measuring the carrying amount to reflect any re-assessment or lease modification

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets:

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

Z. Cash and cash equivalents

For the purpose of the statement of cash flows, "cash and cash equivalents" include notes and coins on hand, balances with SAMA excluding statutory deposits, and due from banks and other financial institutions with original maturity of three months or less which are subject to insignificant risk of changes in their fair value.

AA. End of service benefits

Benefits payable to the employees of the Bank at the end of their services are accrued based on actuarial valuation conducted by an independent actuary, taking into account the provision of the Saudi Arabian Labor Law.

Notes to the Consolidated Financial Statements continued

For the years ended December 31, 2019 and 2018

3. Summary of significant accounting policies continued

3.2 Accounting policies continued

AB. Short term employee benefits

Short term employee benefits are measured on an undiscounted basis and are expensed as the related services are provided.

A liability is recognised for the amount expected to be paid under short term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

AC. Zakat and income tax

The basis of preparation has been changed from the period ended 30 June 2019 as a result of the issuance of instructions from SAMA dated 17 July 2019. Previously, zakat and income tax were recognised in the statement of changes in equity as per the SAMA circular no 381000074519 dated 11 April 2017. With the latest instructions issued by SAMA dated 17 July 2019, the zakat and income tax shall be recognised in the statement of income. The Group has accounted for this change in the accounting for zakat and income tax retrospectively and the effects of the above change are disclosed in note 28 to the consolidated financial statements. The change has resulted in reduction of reported income of the Group for the year ended 31 December 2018 by SAR 1,904 million. The change has had no impact on the statement of cash flows for the year ended 31 December 2018.

Income Tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Bank and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Adjustments arising from the final income tax assessments are recorded in the period in which such assessments are made. The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted for the changes in deferred tax assets and liabilities attributable to the temporary differences and to the unused tax losses.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- whether an entity considers uncertain tax treatments separately
- the assumptions an entity makes about the examination of tax treatments by taxation authorities
- how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- how an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed.

Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Bank and the subsidiaries' tax filings in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The Interpretation did not have an impact on the consolidated financial statements of the Group.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for the taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amounts of assets and liabilities using the tax rates enacted or substantively enacted at the reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available and the credits can be utilised. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realised.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised.

Zakat

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

AD. Investment management, brokerage and corporate finance services

The Bank offers investment services to its customers, through its subsidiary, which include management of certain investment funds in consultation with professional investment advisors. The Bank's share of investment in these funds is included in the FVTPL investments and fees earned are disclosed under related party transactions.

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

AE. Non-commission based banking products

In addition to the conventional banking products, the Bank offers its customers certain non-commission based banking products, which are approved by its Shariah Board, as follows:

High level definitions of non-commission based banking products

i) **Murabaha** is an agreement whereby the Bank sells to a customer a commodity or an asset, which the Bank has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin.
ii) **Mudarabah** is an agreement between the Bank and a customer whereby the Bank invests in a specific transaction. The Bank is called "rabb-ul-mal" while the management and work is exclusive responsibility of the customer who is called "mudarib". The profit is shared as per the terms of the agreement but the loss is borne by the Bank.
iii) **Istisna'a** is an agreement between the Bank and a customer whereby the Bank sells to the customer a developed asset according to agreed upon specifications, for an agreed upon price.
iv) **Ijarah** is an agreement whereby the Bank, acting as a lessor, purchases or constructs an asset for lease according to the customer request (lessee), based on his promise to lease the asset for an agreed rent and specific period that could end by transferring the ownership of the leased asset to the lessee.
v) **Musharaka** is an agreement between the Bank and a customer to contribute to a certain investment enterprise or the ownership of a certain property ending up with the acquisition by the customer of the full ownership. The profit or loss is shared as per the terms of the agreement.
vi) **Tawaraq** is a form of Murabaha transactions where the Bank purchases a commodity and sells it to the customer. The customer sells the underlying commodity at spot and uses the proceeds for his financing requirements.

These non-commission based banking products are included in "loans and advances" and are in conformity with the related accounting policies described in these consolidated financial statements.

4. Cash and balances with SAMA

SAR '000	2019	2018
Cash on hand	**995,416**	1,004,106
Statutory deposit	**7,846,920**	8,150,362
Current account	**–**	16,392
Money market placements with SAMA	**275,000**	11,755,000
Total	**9,117,336**	20,925,860

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

Notes to the Consolidated Financial Statements continued
For the years ended December 31, 2019 and 2018

5. Due from banks and other financial institutions

SAR '000	2019	2018
Current accounts	**2,157,485**	6,168,949
Money market placements	**1,584,978**	9,772,432
Less: impairment	**(373)**	(2,852)
Total	**3,742,090**	15,938,529

The credit quality of due from banks and other financial institutions is managed using reputable external credit rating agencies.

Due from banks and other financial institutions include Islamic related products of SAR 668 million (2018: SAR 3,556 million).

The following table shows reconciliations from the opening to the closing balance of impairment on due from banks and other financial institutions.

	December 31, 2019			
SAR '000	**12 month ECL**	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance as at 1 January 2019	**825**	**2,027**	**–**	**2,852**
Transfer from 12-month ECL	**(1)**	**1**	**–**	**–**
Transfer from lifetime ECL not credit impaired	**–**	**–**	**–**	**–**
Net charge/(reversal) for the year	**(491)**	**(1,988)**	**–**	**(2,479)**
Write-offs	**–**	**–**	**–**	**–**
Balance as at 31 December 2019	**333**	**40**	**–**	**373**

	December 31, 2018			
SAR '000	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance as at 1 January 2018	900	3	–	903
Transfer from12-month ECL	(2)	2	–	–
Transfer from lifetime ECL not credit impaired	–	–	–	–
Net charge/(reversal) for the year	(73)	2,022	–	1,949
Write-offs	–	–	–	–
Balance as at 31 December 2018	825	2,027	–	2,852

6. Investments, net
a) Investment securities are classified as follows:

SAR '000	2019	2018
Investment at amortised cost	**22,127,595**	22,596,255
Investments at FVOCI – Debt instruments	**9,153,150**	5,511,719
Investments at FVOCI – Equity/other investments	**119,706**	135,133
Investment at FVTPL – Debt instruments	**75,412**	356,748
Less: Impairment	**(22,084)**	(227,875)
Total	**31,453,779**	28,371,980

Investment securities include Islamic related products of SAR 10,018 million (2018: SAR 10,201 million).

b) Investments by type of securities

	Domestic		International		Total	
SAR '000	**2019**	2018	**2019**	2018	**2019**	2018
Fixed-rate securities	**20,336,581**	15,891,327	**2,830,431**	1,126,376	**23,167,012**	17,017,703
Floating-rate securities	**7,065,884**	9,520,068	**–**	187,500	**7,065,884**	9,707,568
Equities	**83,843**	89,864	**35,863**	38,308	**119,706**	128,172
Other	**1,123,261**	1,745,731	**–**	681	**1,123,261**	1,746,412
Less: Impairment	**(16,908)**	(39,801)	**(5,176)**	(188,074)	**(22,084)**	(227,875)
Total	**28,592,661**	27,207,189	**2,861,118**	1,164,791	**31,453,779**	28,371,980

c) The reconciliations from the opening to the closing balance of ECL on Debt instruments:
An analysis of changes is loss allowance for Debt instruments is as follows:

	December 31, 2019			
SAR '000	**12 month ECL**	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Debt instrument investments				
Balance at 1 January	**40,375**	**–**	**187,500**	**227,875**
Transfer from12-month ECL	**–**	**–**	**–**	**–**
Transfer from lifetime ECL not credit impaired	**–**	**–**	**–**	**–**
Transfer from lifetime ECL credit impaired	**–**	**–**	**–**	**–**
Net charge/(reversal) for the year	**(18,291)**	**–**	**–**	**(18,291)**
Write-offs	**–**	**–**	**(187,500)**	**(187,500)**
Balance as at 31 December 2019	**22,084**	**–**	**–**	**22,084**

	December 31, 2018			
SAR '000	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Debt instrument investments				
Balance at 1 January	57,355	–	187,500	244,855
Transfer from 12-month ECL	–	–	–	–
Transfer from lifetime ECL not credit impaired	–	–	–	–
Net charge/(reversal) for the year	(16,980)	–	–	(16,980)
Write-offs	–	–	–	–
Balance as at 31 December 2018	40,375	–	187,500	227,875

An analysis of changes is loss allowance by each class of Debt instruments, is as follows:

Amortised cost

	December 31, 2019			
SAR '000	**12 month ECL**	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at 1 January	**35,029**	**–**	**187,500**	**222,529**
Transfer from 12-month ECL	**–**	**–**	**–**	**–**
Transfer from lifetime ECL not credit impaired	**–**	**–**	**–**	**–**
Net charge/(reversal) for the year	**(24,886)**	**–**	**–**	**(24,886)**
Write-offs	**–**	**–**	**(187,500)**	**(187,500)**
Balance as at 31 December 2019	**10,143**	**–**	**–**	**10,143**

	December 31, 2018			
SAR '000	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January	47,813	–	187,500	235,313
Transfer from 12-month ECL	–	–	–	–
Transfer from lifetime ECL not credit impaired	–	–	–	–
Net charge/(reversal) for the year	(12,784)	–	–	(12,784)
Write-offs	–	–	–	–
Balance as at 31 December 2018	35,029	–	187,500	222,529

Notes to the Consolidated Financial Statements continued

For the years ended December 31, 2019 and 2018

6. Investments, net continued

FVOCI

SAR '000	December 31, 2019 12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January	**5,346**	**–**	**–**	**5,346**
Transfer from 12-month ECL	**–**	**–**	**–**	**–**
Transfer from lifetime ECL not credit impaired	**–**	**–**	**–**	**–**
Net charge/(reversal) for the year	**6,595**	**–**	**–**	**6,595**
Write-offs	**–**	**–**	**–**	**–**
Balance as at 31 December 2019	**11,941**	**–**	**–**	**11,941**

SAR '000	December 31, 2018 12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January	9,542	–	–	9,542
Transfer from 12-month ECL	–	–	–	–
Transfer from lifetime ECL not credit impaired	–	–	–	–
Net charge/(reversal) for the year	(4,196)	–	–	(4,196)
Write-offs	–	–	–	–
Balance as at 31 December 2018	5,346	–	–	5,346

d) The analysis of the composition of investments is as follows:

SAR '000	2019 Quoted	2019 Unquoted	2019 Total	2018 Quoted	2018 Unquoted	2018 Total
Fixed-rate securities	**7,638,220**	**15,528,792**	**23,167,012**	2,667,688	14,350,015	17,017,703
Floating-rate securities	**1,106,890**	**5,958,994**	**7,065,884**	1,254,945	8,452,623	9,707,568
Equities	**78,145**	**41,561**	**119,706**	121,869	6,303	128,172
Other	**–**	**1,123,261**	**1,123,261**	6,280	1,740,132	1,746,412
	8,823,255	**22,652,608**	**31,475,863**	4,050,782	24,549,073	28,599,855
Allowance for impairment	**(7,239)**	**(14,845)**	**(22,084)**	(1,377)	(226,498)	(227,875)
Investments, net	**8,816,016**	**22,637,763**	**31,453,779**	4,049,405	24,322,575	28,371,980

Other investment includes Mudarabah SAR 1,115 million (2018: SAR 1,739 million). Unquoted investments include Saudi Government Bonds of SAR 15,296 million (2018: SAR 19,723 million).

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

SAR '000	2019	2018
Government and quasi government	**27,746,859**	23,400,100
Corporate	**2,728,494**	3,865,937
Banks and other financial institutions	**978,426**	1,099,663
Other	**–**	6,280
Total	**31,453,779**	28,371,980

Investments include SAR 1,906 (2018: Nil), which have been pledged under repurchase agreements with other banks. The market value of such investment is SAR 1,895 (2018: SAR Nil).

7. Loans and advances, net

a) Loans and advances are classified as follows:

Held to Amortised cost

SAR '000	2019 Overdraft & Commercial loans	Credit Cards	Consumer Loans	Total
Performing loans and advances – gross	**107,970,558**	**455,017**	**17,590,312**	**126,015,887**
Non-performing loans and advances, net	**3,126,851**	**59,068**	**231,578**	**3,417,497**
Total loans and advances	**111,097,409**	**514,085**	**17,821,890**	**129,433,384**
Allowance for impairment	**(3,239,150)**	**(96,829)**	**(372,309)**	**(3,708,288)**
Loans and advances held at amortised cost, net	**107,858,259**	**417,256**	**17,449,581**	**125,725,096**

SAR '000	2018 Overdraft & Commercial loans	Credit Cards	Consumer Loans	Total
Performing loans and advances – gross	107,544,030	456,779	13,066,013	121,066,822
Non-performing loans and advances, net	3,257,188	80,568	287,410	3,625,166
Total loans and advances	110,801,218	537,347	13,353,423	124,691,988
Allowance for impairment	(3,631,806)	(80,775)	(347,773)	(4,060,354)
Loans and advances held at amortised cost, net	107,169,412	456,572	13,005,650	120,631,634

Loans and advances, net include Islamic related products of SAR 83,263 million (2018: SAR 71,452 million). The gross Islamic products portfolio mainly comprised of Tawarooq (2019: SAR 49,852 million and 2018: SAR 43,887 million), Ijarah (2019: SAR 9,639 million and 2018: SAR 10,025 million) and Murabaha (2019: SAR 26,172 million and 2018: SAR 22,760 million). The expected credit loss allowance on the portfolio was SAR 2,157 million (2018: SAR 1,707 million).

b) in allowance for impairment of credit losses are classified as follows:

An analysis of changes in loss allowance for Loans and Advances is, as follows:

SAR '000	December 31, 2019 12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January	**657,515**	**1,009,654**	**2,393,185**	**4,060,354**
Transfer from 12-month ECL	**(40,309)**	**28,932**	**11,377**	**–**
Transfer from lifetime ECL not credit impaired	**166,707**	**(188,998)**	**22,291**	**–**
Transfer from Lifetime ECL credit impaired	**33,774**	**5,767**	**(39,541)**	**–**
Net charge/(reversal) for the year	**(136,743)**	**126,089**	**1,019,221**	**1,008,567**
Write-offs	**–**	**–**	**(1,360,633)**	**(1,360,633)**
Balance as at 31 December 2019	**680,944**	**981,444**	**2,045,900**	**3,708,288**

SAR '000	December 31, 2018 12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January	367,969	1,608,722	2,112,393	4,089,084
Transfer from 12-month ECL	(26,282)	18,051	8,231	–
Transfer from lifetime ECL not credit impaired	6,874	(52,954)	46,080	–
Net charge/(reversal) for the year	308,954	(564,165)	1,165,710	910,499
Write-offs	–	–	(939,229)	(939,229)
Balance as at 31 December 2018	657,515	1,009,654	2,393,185	4,060,354

An analysis of changes in loss allowance by each class of financial instrument is, as follows:

Notes to the Consolidated Financial Statements continued

For the years ended December 31, 2019 and 2018

7. Loans and advances, net continued

b) in allowance for impairment of credit losses are classified as follows: continued

Overdraft & Commercial loans

SAR '000	12 month ECL (December 31, 2019)	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January	**571,694**	**975,305**	**2,084,807**	**3,631,806**
Transfer from12-month ECL	**(38,061)**	**27,520**	**10,541**	**-**
Transfer from lifetime ECL not credit impaired	**147,796**	**(165,277)**	**17,481**	**-**
Transfer from Lifetime ECL credit impaired	**261**	**-**	**(261)**	**-**
Net charge/(reversal) for the year	**(132,033)**	**121,000**	**883,088**	**872,055**
Write-offs	**-**	**-**	**(1,264,711)**	**(1,264,711)**
Balance as at 31 December 2019	**549,657**	**958,548**	**1,730,945**	**3,239,150**

SAR '000	12 month ECL (December 31, 2018)	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January	287,037	1,555,285	1,934,820	3,777,142
Transfer from12-month ECL	(7,926)	6,788	1,138	-
Transfer from lifetime ECL not credit impaired	5,341	(36,421)	31,080	-
Net charge/(reversal) for the year	287,242	(550,347)	984,495	721,390
Write-offs	-	-	(866,726)	(866,726)
Balance as at 31 December 2018	571,694	975,305	2,084,807	3,631,806

Credit Cards

SAR '000	12 month ECL (December 31, 2019)	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January	**17,240**	**3,278**	**60,257**	**80,775**
Transfer from 12-month ECL	**(508)**	**221**	**287**	**-**
Transfer from lifetime ECL not credit impaired	**2,354**	**(2,682)**	**328**	**-**
Transfer from Lifetime ECL credit impaired	**2,898**	**855**	**(3,753)**	**-**
Net charge/(reversal) for the year	**(6,286)**	**7,050**	**43,401**	**44,165**
Write-offs	**-**	**-**	**(28,111)**	**(28,111)**
Balance as at 31 December 2019	**15,698**	**8,722**	**72,409**	**96,829**

SAR '000	12 month ECL (December 31, 2018)	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January	16,099	18,701	42,630	77,430
Transfer from 12-month ECL	(5,321)	2,665	2,656	-
Transfer from lifetime ECL not credit impaired	382	(8,579)	8,197	-
Net charge/(reversal) for the year	6,080	(9,509)	34,855	31,426
Write-offs	-	-	(28,081)	(28,081)
Balance as at 31 December 2018	17,240	3,278	60,257	80,775

Consumer Loans

SAR '000	12 month ECL (December 31, 2019)	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January	**68,581**	**31,071**	**248,121**	**347,773**
Transfer from 12-month ECL	**(1,739)**	**1,190**	**549**	**-**
Transfer from lifetime ECL not credit impaired	**16,558**	**(21,040)**	**4,482**	**-**
Transfer from Lifetime ECL credit impaired	**30,615**	**4,912**	**(35,527)**	**-**
Net charge/(reversal) for the year	**1,577**	**(1,962)**	**92,732**	**92,347**
Write-offs	**-**	**-**	**(67,811)**	**(67,811)**
Balance as at 31 December 2019	**115,592**	**14,171**	**242,546**	**372,309**

SAR '000	12 month ECL (December 31, 2018)	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January	64,833	34,736	134,943	234,512
Transfer from 12-month ECL	(13,035)	8,598	4,437	-
Transfer from lifetime ECL not credit impaired	1,151	(7,954)	6,803	-
Net charge/(reversal) for the year	15,632	(4,309)	146,360	157,683
Write-offs	-	-	(44,422)	(44,422)
Balance as at 31 December 2018	68,581	31,071	248,121	347,773

The movement in the allowance for impairment charge for investments and other financial assets for the year ended 31 December is as follows:

SAR '000	Note	2019	2018
Impairment (reversal)/charge on due from banks, net	5	**(2,479)**	1,949
Impairment (reversal)/charge on off statement of financial position, net	15	**(21,792)**	274,842
Impairment reversal on amortised cost, net	6 (c)	**(24,886)**	(12,784)
Impairment charge/(reversal) on FVOCI, net	6 (c)	**6,595**	(4,196)
Impairment charge/(reversal) on other assets, net		**239**	(16)
Total		**(42,323)**	259,795

c) Loans and advances include finance lease receivables, which are analysed as follows:

SAR '000	2019	2018
Gross receivable from finance leases		
Less than 1 year	**1,130,795**	996,178
1 to 5 years	**2,625,584**	3,642,383
More than 5 years	**6,632,622**	6,182,609
Unearned future finance income on finance lease	**(750,396)**	(795,448)
Net receivable from finance leases	**9,638,605**	10,025,722
Impairment provision	**(142,492)**	(176,744)
	9,496,113	9,848,978

8. Investment in associates

SAR '000	2019	2018
Balance at 1 January	**9,695**	76,049
Share of earnings	**-**	2,529
Impairment charge	**-**	(32,500)
Transferred to FVOCI	**-**	(36,383)
Balance as at 31 December	**9,695**	9,695

Investment in associates represents 27% shareholding in the Banque BEMO Saudi Fransi (2018: 27%).

The Bank's share of Banque Bemo Saudi Fransi – Syria financial statements:

SAR '000	Banque Bemo Saudi Fransi – Syria 2019	2018
Total assets	**748,865**	706,472
Total liabilities	**673,748**	637,359
Total equity	**75,117**	69,113
Total income	**37,837**	25,728
Total expenses	**25,940**	14,387

During the year 2018, the Bank lost significant influence on one of its associates namely Allianz Saudi Fransi Cooperative Insurance Company. The Bank sold 18.5% of its holding in the associate having a carrying value of SAR 46.17 million against the proceeds of SAR 81.27 million. Upon disposal, the FV of the retained interest amounts to SAR 97.16 million, which was initially recognised as financial asset under FVOCI.

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9. Property and equipment, net

SAR '000	Land and buildings	Leasehold improvements	Furniture, equipment & vehicles	Computer and Software	Total
Cost					
Balance at 1 January 2018	722,384	82,691	529,834	420,845	1,755,754
Additions during the year	22,393	8,729	18,066	58,519	107,707
Disposals and retirements	–	(22,520)	(3,780)	(60,479)	(86,779)
Balance at 31 December 2018	744,777	68,900	544,120	418,885	1,776,682
Additions during the year	**18,350**	**10,370**	**21,798**	**71,926**	**122,444**
Disposals and retirements	**(2,382)**	**(21,612)**	**(4,077)**	**(67,373)**	**(95,444)**
Balance at 31 December 2019	**760,745**	**57,658**	**561,841**	**423,438**	**1,803,682**
Accumulated depreciation and impairment losses					
Balance at 1 January 2018	311,574	15,692	434,056	257,505	1,018,827
Depreciation and amortization charge	25,640	23,738	27,720	77,068	154,166
Disposals and retirements	(63)	(22,520)	(3,618)	(60,479)	(86,680)
Balance at 31 December 2018	337,151	16,910	458,158	274,094	1,086,313
Depreciation and amortization charge	**25,880**	**22,495**	**23,825**	**75,752**	**147,952**
Disposals and retirements	**(1,811)**	**(21,612)**	**(3,962)**	**(67,373)**	**(94,758)**
Balance at 31 December 2019	**361,220**	**17,793**	**478,021**	**282,473**	**1,139,507**
Net book value					
As at 31 December 2019	**399,525**	**39,865**	**83,820**	**140,965**	**664,175**
As at 31 December 2018	407,626	51,990	85,962	144,791	690,369

Leasehold improvements as at December 31, 2019 include work in progress amounting to SAR 12 million (2018: SAR 17 million). Computer and software include software having a net book value of SAR 76 million (2018: SAR 107 million).

Right-of-use assets

	2019		
SAR '000	Land & Building	Furniture, equipment & vehicles	Total
Balance at 1 January	**666,874**	**8,161**	**675,035**
Add: Additions	**50,663**	**7**	**50,670**
Less: Disposals	**1,959**	**22**	**1,981**
Depreciation and amortization	**59,022**	**4,310**	**63,332**
Balance as at 31 December	**656,556**	**3,836**	**660,392**

10. Other assets

SAR '000	2019	2018
Accounts receivable	**1,300,201**	717,832
Others	**420,174**	518,834
Total	**1,720,375**	1,236,666

11. Derivatives

In the ordinary course of business, the Bank utilises the following derivative financial instruments for both trading and hedging purposes:

a) Swaps
Swaps are commitments to exchange one set of cash flows for another. For commission rate swaps, counterparties generally exchange fixed and floating rate commission payments in a single currency without exchanging principal. For currency rate swaps, fixed and floating commission payments and principal are exchanged in different currencies.

b) Forwards and futures
Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customised contracts transacted in the over the counter market. Foreign currency and commission rate futures are transacted in standardised amounts on regulated exchanges and changes in futures contract values are settled daily.

c) Forward rate agreements
Forward rate agreements are individually negotiated commission rate contracts that call for a cash settlement for the difference between a contracted commission rate and the market rate on a specified future date, on a notional principal for an agreed period of time.

d) Options
Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price.

Held for trading purposes
Most of the Bank's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers, Banks and other financial institutions in order, inter alia, to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage involves identifying, with the expectation of profiting from price differentials between markets or products. The Bank also holds structured derivative which are fully back to back in accordance with the bank's risk management strategy.

Held for hedging purposes
The Bank has adopted a comprehensive system for the measurement and the management of risk. Part of the risk management process involves managing the Bank's exposure to fluctuations in foreign exchange and commission rates to reduce its exposure to currency and commission rate risks to an acceptable level as determined by the Board of Directors in accordance with the guidelines issued by SAMA. The Board of Directors has established the levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors has also established the level of commission rate risk by setting commission rate sensitivity limits. Commission rate exposure in terms of the sensitivity is reviewed on a periodic basis and hedging strategies are used to reduce the exposure within the established limits.

As part of its asset and liability management the Bank uses derivatives for hedging purposes in order to adjust its own exposure to currency and commission rate risks. This is generally achieved by hedging specific transactions as well as strategic hedging against overall consolidated statement of financial position exposures. Strategic hedging does not qualify for special hedge accounting and the related derivatives are accounted for as held for trading.

The Bank uses forward foreign exchange contracts and currency rate swaps to hedge against currency risks. In addition, the Bank uses commission rate swaps and commission rate futures to hedge against the commission rate risk arising from specifically identified fixed commission rate exposures. The Bank also uses commission rate swaps to hedge against the cash flow risk arising on certain floating rate exposures. In all such cases, the hedging relationship and objective, including details of the hedged items and hedging instrument are formally documented and the transactions are accounted for as fair value or cash flow hedges.

Cash flow hedges
The Bank is exposed to variability in future special commission income cash flows on non-trading assets and liabilities which bear variable commission rate. The Bank uses commission rate swaps as cash flow hedges of these commission rate risks. Also, as a result of firm commitments in foreign currencies, such as its issued foreign currency debt, the Bank is exposed to foreign exchange and commission rate risks which are hedged with cross currency commission rate swaps. Below is the schedule indicating as at 31 December, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss:

SAR '000	Within 1 year	1-3 years	3-5 years	Over 5 years
2019				
Cash inflows (assets)	**1,422,004**	**1,796,338**	**552,450**	**-**
Cash out flows (liabilities)	**(953,419)**	**(1,024,577)**	**(347,229)**	**-**
Net cash inflow	**468,585**	**771,761**	**205,221**	**-**
2018				
Cash inflows (assets)	1,569,179	1,987,119	548,626	–
Cash out flows (liabilities)	(1,526,039)	(1,736,867)	(391,249)	–
Net cash inflow	43,140	250,252	157,377	–

The net/(loss) gain on cash flow hedges transferred to the consolidated statement of income during the year was as follows:

SAR '000	2019	2018
Special commission income	**1,464,149**	1,606,692
Special commission expense	**(1,510,634)**	(1,535,044)
Net (loss)/gain on cash flow hedges transferred to consolidated statement of income	**(46,485)**	71,648

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11. Derivatives continued

The following tables show the positive and negative fair values of derivative financial instruments held, together with their notional amounts analysed by the term to maturity and monthly average. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Bank's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor to market risk.

			Notional amounts by term to maturity					
Derivative financial instruments SAR '000	**Positive fair value**	**Negative fair value**	**Notional amount total**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Monthly average**
2019								
Held for trading								
Commission rate swaps	**2,441,789**	**2,375,872**	**174,362,942**	**17,712,296**	**21,800,979**	**116,905,641**	**17,944,026**	**163,993,329**
Commission rate futures and options	**629,181**	**629,181**	**51,141,161**	**51,387**	**9,252,601**	**35,116,223**	**6,720,950**	**55,851,254**
Forward foreign exchange contracts	**96,965**	**23,392**	**24,160,021**	**14,611,504**	**6,914,915**	**1,860,789**	**772,813**	**22,495,992**
Currency options	**427**	**427**	**8,784**	**360**	**–**	**8,424**	**–**	**240,976**
Others	**27,299**	**27,299**	**164,619**	**123,840**	**40,779**	**–**	**–**	**539,424**
Held as cash flow hedges								
Commission rate swaps	**1,410,890**	**13,235**	**51,800,640**	**10,198,000**	**6,480,000**	**35,122,640**	**–**	**54,880,395**
Total	**4,606,551**	**3,069,406**	**301,638,167**	**42,697,387**	**44,489,274**	**189,013,717**	**25,437,789**	**298,001,370**

			Notional amounts by term to maturity					
Derivative financial instruments SAR '000	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
2018								
Held for trading								
Commission rate swaps	1,087,606	1,033,434	154,889,392	8,242,337	15,646,638	114,112,344	16,888,073	164,841,985
Commission rate futures and options	241,720	241,720	55,743,725	–	8,792,435	41,982,040	4,969,250	64,773,996
Forward foreign exchange contracts	134,446	18,682	28,146,685	16,780,608	7,405,229	3,960,848	–	30,008,059
Currency options	1,577	1,577	694,355	274,355	420,000	–	–	1,350,143
Others	7,791	7,791	709,920	15,797	390,403	303,720	–	650,637
Held as cash flow hedges								
Commission rate swaps	459,324	110,924	60,041,236	9,380,000	9,002,500	41,658,736	–	64,652,205
Total	1,932,464	1,414,128	300,225,313	34,693,097	41,657,205	202,017,688	21,857,323	326,277,025

The table below shows a summary of hedged items, the nature of the risk being hedged, the hedging instrument and its fair value.

SAR '000 Description of hedged items	**Fair value**	**Cost**	**Risk**	**Hedging instrument**	**Positive fair value**	**Negative fair value**
2019						
Floating commission rate investments	**4,130,432**	**4,019,640**	**Cash flow**	**Commission rate swap**	**110,792**	**–**
Floating commission rate loans	**49,067,863**	**47,781,000**	**Cash flow**	**Commission rate swap**	**1,300,098**	**13,235**
2018						
Floating commission rate investments	4,972,123	4,922,736	Cash flow	Commission rate swap	54,790	5,403
Floating commission rate loans	55,417,513	55,118,500	Cash flow	Commission rate swap	404,534	105,521

The Bank has posted SAR 592 million (2018: SAR 274 million) and received SAR 942 million (2018: SAR 292 million) collaterals under Credit Support Annex (CSA) agreements and European Market Infrastructure Regulation (EMIR).

12. Due to banks and other financial institutions

SAR '000	**2019**	2018
Current accounts	**554,416**	251,940
Money market deposits	**1,817,724**	1,893,541
Total	**2,372,140**	2,145,481

Due to banks and other financial institutions include Islamic related products of SAR Nil million (2018: SAR Nil million).

13. Customers' deposits

SAR '000	**2019**	2018
Demand	**67,732,501**	67,792,228
Saving	**591,825**	547,702
Time	**59,478,938**	75,682,178
Other	**5,034,238**	4,345,896
Total	**132,837,502**	148,368,004

Other customers' deposits include SAR 3,036 million (2018: SAR 2,748 million) related to margins held for irrevocable commitments. Time deposits include Islamic related products of SAR 19,271 million (2018: SAR 35,128 million).

Customers' deposits include foreign currency deposits as follows:

SAR '000	**2019**	2018
Demand	**7,436,209**	7,422,526
Saving	**18,200**	15,805
Time	**12,349,220**	16,452,750
Other	**1,948,430**	1,573,263
Total	**21,752,059**	25,464,344

Foreign currency deposits mainly include deposits in USD amounting to SAR 17,443 million (2018: SAR 22,043 million).

14. Debt securities and Sukuks

During the year, the Bank has fully settled a privately placed SAR 2,000 million unsecured subordinated sukuk issued in June 2014 for a period of 10 years. The sukuk was settled due to the exercise of the option to repay after 5 years, subsequent to approval of SAMA and in line with terms and conditions of the agreement.

15. Other liabilities

SAR '000	**2019**	2018
Accounts payable and accrued expenses	**3,366,254**	2,109,733
Zakat liability for prior years	**966,828**	1,510,669
Lease liability	**711,888**	–
Others	**1,877,841**	1,836,972
Total	**6,922,811**	5,457,374

Movement of ECL provision on off statement of financial position

	December 31, 2019			
SAR '000	**12 month ECL**	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at 1 January	**44,176**	**44,057**	**489,497**	**577,730**
Transfer from12-month ECL	**(1,479)**	**1,475**	**4**	**–**
Transfer from lifetime ECL not credit impaired	**2,175**	**(2,577)**	**402**	**–**
Net (reversal) for the year	**(2,765)**	**(17,326)**	**(1,701)**	**(21,792)**
Write-offs	**–**	**–**	**–**	**–**
Balance as at 31 December	**42,107**	**25,629**	**488,202**	**555,938**

	December 31, 2018			
SAR '000	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January	73,491	62,171	167,226	302,888
Transfer from12-month ECL	(1,076)	731	345	–
Transfer from lifetime ECL not credit impaired	28	(7,137)	7,109	–
Net (reversal)/charge for the year	(28,267)	(11,708)	314,817	274,842
Write-offs	–	–	–	–
Balance as at 31 December	44,176	44,057	489,497	577,730

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16. Share capital
The authorised, issued and fully paid share capital of the Bank consists of 1,205 million shares of SAR 10 each (December 31, 2018: 1,205 million shares of SAR 10 each).

The ownership of the Bank's share capital is as follows:

SAR '000	2019 (%)	2018 (%)	2019	2018
Saudi shareholders	**87.0**	85.1	**10,485,269**	10,256,251
Credit Agricole Corporate and Investment Bank (CA-CIB)	**4.0**	14.9	**483,482**	1,797,321
RAM Holdings I Ltd.	**9.0**	–	**1,084,821**	–
Total	**100**	100	**12,053,572**	12,053,572

17. Statutory and general reserve
In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank. Accordingly, the Bank has reached the required limits and no further transfers are required from the net income for the year ended December 31, 2019 (2018: SAR Nil). The statutory reserve is not currently available for distribution.

The Bank had appropriated SAR 983 million to general reserve from retained earnings in the prior years.

18. Other reserves

SAR '000	Cash flow hedges	FVOCI investments	Total
2019			
Balance at 1 January	**(308,518)**	**(9,786)**	**(318,304)**
Net change in fair value	**1,006,117**	**108,178**	**1,114,295**
Transfer to consolidated statement of income	**46,485**	**(31,456)**	**15,029**
Disposal of equity – FVOCI	**–**	**1,202**	**1,202**
Net movement during the year	**1,052,602**	**77,924**	**1,130,526**
Balance as at 31 December	**744,084**	**68,138**	**812,222**
2018			
Balance at 1 January	(295,290)	10,118	(285,172)
Net change in fair value	58,420	(43,385)	15,035
Transfer to consolidated statement of income	(71,648)	23,481	(48,167)
Net movement during the year	(13,228)	(19,904)	(33,132)
Balance as at 31 December	(308,518)	(9,786)	(318,304)

Other reserves represent the net unrealised revaluation gains/(losses) of cash flow hedges and FVOCI. These reserves are not available for distribution.

19. Commitments and contingencies
a) Legal proceedings
As at December 31, 2019 there were 47 (2018: 40) legal proceedings outstanding against the Bank. No material provision has been made as the related legal advice indicates that it is unlikely that any significant loss will arise.

b) Capital commitments
As at December 31, 2019 the Bank had capital commitments of SAR 92 million (2018: SAR 21 million) in respect of buildings and equipment purchases.

c) Credit related commitments and contingencies
The primary purpose of these instruments is to ensure that funds are available to a customer as required.

Guarantees and standby letters of credit, which represent irrecoverable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

Documentary letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are generally collateralised by the underlying shipments of goods to which they relate, and therefore have significantly less risk.

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be presented before being reimbursed by the customers.

Commitments to extend credit represent the unused portion of authorisations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire or terminate without being funded.

i) The contractual maturity structure for the Bank's commitments and contingencies is as follows:

SAR '000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
2019					
Letters of credit	**1,110,084**	**6,239,163**	**1,483,770**	**–**	**8,833,017**
Letters of guarantee	**5,968,798**	**22,178,207**	**9,271,363**	**510,446**	**37,928,814**
Acceptances	**637,151**	**1,500,016**	**108,932**	**–**	**2,246,099**
Irrevocable commitments to extend credit	**56,243**	**1,022,714**	**3,537,809**	**–**	**4,616,766**
Total	**7,772,276**	**30,940,100**	**14,401,874**	**510,446**	**53,624,696**
2018					
Letters of credit	4,629,719	2,609,978	678,405	–	7,918,102
Letters of guarantee	10,687,448	21,390,018	8,706,463	505,590	41,289,519
Acceptances	1,344,643	459,631	68,553	–	1,872,827
Irrevocable commitments to extend credit	162,115	374,331	2,007,362	271,671	2,815,479
Total	16,823,925	24,833,958	11,460,783	777,261	53,895,927

The outstanding unused portion of non-firm commitments which can be revoked unilaterally at any time by the Bank was SAR 89,038 million (2018: SAR 85,038 million).

ii) The analysis of commitments and contingencies by counterparty is as follows:

SAR '000	2019	2018
Government and quasi government	**644,470**	31,354
Corporate	**48,799,930**	48,227,844
Banks and other financial institutions	**4,130,350**	5,544,309
Other	**49,946**	92,420
Total	**53,624,696**	53,895,927

20. Special commission income and expense

SAR '000	2019	2018
Special commission income		
Investments		
– FVOCI	**219,285**	192,047
– Amortised Cost	**693,533**	564,485
	912,818	756,532
Due from banks and other financial institutions	**386,613**	485,961
Loans and advances	**6,070,099**	5,705,083
Total	**7,369,530**	6,947,576
Special commission expense		
Due to banks and other financial institutions	**82,277**	60,698
Customers' deposits	**2,040,817**	1,794,377
Debt securities and sukuks	**40,759**	75,629
Total	**2,163,853**	1,930,704
Net special commission income	**5,205,677**	5,016,872

Net Special commission income related to Islamic related products were SAR 1,466 million (2018: SAR 1,461 million).

Notes to the Consolidated Financial Statements continued
For the years ended December 31, 2019 and 2018

21. Fees and commission income, net

SAR '000	2019	2018
Fees and commission income		
– Share trading, brokerage, fund management and corporate finance	**281,332**	271,347
– Trade finance	**441,304**	447,725
– Loans and syndication management fees	**341,976**	275,935
– Card products	**311,315**	275,157
– Other banking services	**128,284**	132,385
Total fees and commission income	**1,504,211**	1,402,549
Fees and commission expense		
– Share trading and brokerage	**47,566**	53,527
– Card products	**272,459**	230,518
– Other banking services	**44,680**	23,001
Total fees and commission expense	**364,705**	307,046
Fees and commission income, net	**1,139,506**	1,095,503

22. Trading income, net

SAR '000	2019	2018
Derivatives, net	**77,734**	183,824
Securities, net	**14,429**	10,433
Total	**92,163**	194,257

23. Dividend income

SAR '000	2019	2018
FVOCI – equities	**2,442**	896

24. Gains/(losses) on FVOCI, net

SAR '000	2019	2018
FVOCI – Debt Instruments	**31,456**	(23,481)

25. Other operating income

SAR '000	2019	2018
Gains on disposal of property and equipment	**543**	225
Recoveries of written off loans	**61,222**	66,177
Other	**4,037**	3,712
Total	**65,802**	70,114

26. Basic and diluted earnings per share

Basic and diluted earnings per share for the years ended December 31, 2019 and 2018 are calculated on a weighted average basis by dividing the net income for the year by 1,200 million shares after excluding treasury shares consisting of 5.7 million shares as of 31 December 2019 (31 December 2018: 6 million shares).

27. Gross dividend

The Board of Directors has proposed final net dividend of SAR 1,200 million (2018: SAR 958 million) i.e. SAR 1.00 (2018: SAR 0.80) net per share for the year which is subject to the approval of the shareholders at the Annual General Assembly Meeting and the regulatory agencies. The Board of Directors has declared interim net dividend of SAR 1,155 million (2018: SAR 1,028 million) i.e. SAR 1.00 (2018: SAR 0.90) net per share.

SAR '000	2019	2018
Interim net dividend	**1,155,151**	1,028,204
Final proposed net dividend	**1,199,679**	958,081
Total	**2,354,830**	1,986,285

28. Zakat and Income Tax

The dividends are paid to the Saudi and non–Saudi shareholders after deduction of Zakat and income tax respectively as follows:

a) Saudi shareholders
Zakat attributable to Saudi Shareholders for the year amounted to SAR 391 million (2018: SAR 277 million) which will be deducted from their share of dividend.

b) Non-Saudi shareholders
Income tax payable on the current year's share of income is approximately SAR 106 million (2018: SAR 99 million).

The share of dividend of non–Saudi shareholder will be paid after deducting the related taxes due as described above.

Zakat Settlement

The Bank has calculated Zakat accruals for the year 2019 based on the new Zakat rules for financing activities in accordance with MR 2215 dated 14 March 2019 corresponding to 7 Rajab 1440H.

As a major event, in the year 2018, the Bank reached a settlement agreement with the General Authority for Zakat & Income Tax (GAZT), to settle the Zakat Liability amounting to SAR 1,510.67 million for previous years and until the end of the financial year 2017. The settlement agreement requires the Bank to settle 20% of the agreed Zakat Liability in the current year and the remaining to be settled over the period of five years, accordingly the Bank has adjusted Zakat & Income Taxes for the previous years and until the end of financial year 2017, through its Retained Earnings, in the financial statements for the year ended December 31, 2018.

As a result of the settlement agreement, the Bank has agreed to withdraw all of the previous appeals which were filed with the competent authority with respect to Zakat & Income Tax.

The change in the accounting treatment for zakat and income tax has the following impact on the line items of the statements of income, statement of financial position and changes in shareholders' equity:

As at 31 December 2018

SAR '000 Financial statement impacted	Account	Before the restatement for the year ended 31 December 2018	Effect of Restatement	As restated as at and for the year ended 31 December 2018
Statement of changes in Equity	Provision for zakat and income tax (retained earnings)	1,886,815	(1,886,815)	–
Statement of income	Zakat and income tax expenses	–	1,904,038	1,904,038
Statement of income	Earnings per share	2.76	(1.59)	1.17
Statement of financial position	Deferred tax asset	–	49,571	49,571
Statement of financial position	Retained earnings	5,200,042	49,571	5,249,613

As at 1 January 2018

SAR '000 Financial statement impacted	Account	Before the restatement as at 1 January 2018 after effect of IFRS 9	Effect of restatement	As restated as at 1 January 2018
Statement of financial position	Deferred tax asset	–	66,794	66,794
Statement of financial position	Retained earnings	5,766,088	66,794	5,832,882
Statement of changes in equity	Impact of adopting IAS 12	–	66,794	66,794

Zakat Reconciliation

SAR '000	2019	2018
Zakat for the year	**391,248**	276,804
Zakat settlement for prior years	**–**	1,510,669
Zakat charge for the current year	**391,248**	1,787,473

Tax Reconciliation

SAR '000	2019	2018
Income tax for the year	**106,294**	99,342
Deferred tax	**6,634**	17,223
Income tax charge for the current year	**112,928**	116,565

Notes to the Consolidated Financial Statements continued
For the years ended December 31, 2019 and 2018

28. Zakat and Income Tax continued

Deferred Tax

The deferred tax arises on end of service benefits, impairment allowance on off-balance expected credit losses and other items.

SAR '000	2019	2018
Opening deferred tax asset	**49,571**	66,794
(Reversal)/origination of temporary differences	**(2,533)**	21,432
Impact of change in shareholding	**(4,101)**	(38,655)
Deferred tax (expense)	**(6,634)**	(17,223)
Balance as at 31 December	**42,937**	49,571

29. Cash and cash equivalents

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

SAR '000	2019	2018
Cash and balances with SAMA excluding statutory deposit (note 4)	**1,270,416**	12,775,498
Due from banks and other financial institutions with a maturity of three months or less from the date of acquisition	**2,392,090**	11,214,381
Total	**3,662,506**	23,989,879

Due from banks and other financial institutions maturing after three months from the date of acquisition were SAR 1,350 million (2018: SAR 4,727 million).

30. Employees compensation practices

	2019				
SAR '000 Categories of employees	**Number of employees**	**Fixed compensation**	**Variable compensation**	**Total compensation**	**Forms of payment**
Senior executives	**17**	**39,706**	**33,051**	**72,757**	**Cash**
Employees engaged in risk taking activities	**383**	**221,584**	**84,401**	**305,985**	**Cash**
Employees engaged in control functions	**372**	**125,204**	**23,769**	**148,973**	**Cash**
Other employees	**2,226**	**484,206**	**83,286**	**567,492**	**Cash**
Total	**2,998**	**870,700**	**224,507**	**1,095,207**	

	2018				
SAR '000 Categories of employees	Number of employees	Fixed compensation	Variable compensation	Total compensation	Forms of payment
Senior executives	17	34,621	33,601	68,222	Cash
Employees engaged in risk taking activities	427	236,664	80,673	317,337	Cash
Employees engaged in control functions	425	144,989	28,069	173,058	Cash
Other employees	2,158	453,542	58,829	512,371	Cash
Total	3,027	869,816	201,172	1,070,988	

Number of employees represents only the closing balance.

SAR '000	2019	2018
Total compensation	**1,095,207**	1,070,988
Other employee related costs	**234,043**	308,992
Total salaries and employee related costs	**1,329,250**	1,379,980

The above table includes deferred variable compensation of SAR 20,349 (2018: SAR 20,114).

There are certain benefits paid to employees under various schemes that are recorded under special commission and fee expenses.

Senior executives:
This comprises senior management having responsibility and authority for formulating strategies, directing and controlling the activities of the Bank including MD.

Employees engaged in risk taking activities:
This comprises managerial staff within the business lines (Corporate, Retail, Treasury and Investment banking and Brokerage), who are responsible for executing and implementing the business strategy on behalf of the Bank. This includes those involved in recommending and evaluating credit limits and credit worthiness, pricing of loans, undertaking and executing business proposals, treasury dealing activities, investment management and brokerage services.

Employees engaged in control functions:
This refers to employees working in divisions that are not involved in risk taking activities but engaged in review functions (Risk Management, Compliance, Corporate Governance, Legal, Internal Audit, Finance and Accounting). These functions are fully independent from risk taking units.

Other employees:
This includes all other employees of the Bank, excluding those already reported under the above categories.

Governance of Compensation
The Board of Directors of BSF, through the Nomination and Compensation Committee (NCCOM) is responsible for the overall design and oversight of the compensation and performance management system.

NCCOM: Terms of Reference

a) Overseeing the compensation system's design and operation on behalf of the Board of Directors;

b) Preparing the Compensation Policy and placing it before the Board for approval;

c) Periodically reviewing the Compensation Policy on its own or when advised by the Board, and making recommendations to the Board for amending/updating the Policy;

d) Periodically evaluating the adequacy and effectiveness of the Compensation Policy to ensure that its stated objectives are achieved;

e) Evaluating practices by which compensation is paid for potential future revenues whose timing and likelihood remain uncertain;

f) Making recommendations to the Board on the level and composition of remuneration of key executives of the Bank. The key executives for this purpose will include all those executives whose appointment is subject to no objection by SAMA;

g) Determination of bonus pool based on risk-adjusted profit of the Bank for payment of performance bonus;

h) Reviewing compliance of the Compensation Policy with these Rules and the FSB principles and Standards;

i) Performing any other related tasks to comply with the regulatory requirements.

j) Considering the suitability of candidates for membership of the Board in accordance with the By-Laws of the Bank and approved policies and standards;

k) Undertaking an annual review of the requirement of suitable skills and qualifications for the membership of the Board;

l) Recommending to the Board criteria for the composition of the Board and its Committees, including the number of Board members, and independence of directors;

m) Conducting an annual evaluation of the independent status of each candidate proposed for election at the General Assembly meeting and reporting the results of such evaluation to the Board;

n) Satisfying itself to the Board and its committees, as applicable, are in compliance with all regulatory requirements, including its composition;

o) Assisting the Board in reviewing the adequacy of the succession planning process and oversee its implementation;

p) Reviewing the performance and making recommendations to the Board regarding the compensation of the Senior Management of BSF;

q) Reviewing and assessing the adequacy of this Charter every three years and submitting this Charter and any amendments to the Board for approval;

r) Conducting self-evaluation to assess the Committee's contribution and effectiveness in fulfilling its mandate and present it to the Board every three years.

Notes to the Consolidated Financial Statements continued

For the years ended December 31, 2019 and 2018

30. Employees compensation practices continued

Incentives Oversight Committee (IOC): Terms of Reference

a) The IOC ensures that all incentive plans are properly balanced for risk and reflective of the Bank's compensation philosophy, policy, strategic objectives and incentive system as determined by the NRC and business unit goals;

b) The IOC is responsible for making recommendations to the NRC on all changes to the existing incentive plans in the bank as well as the addition or removal of any incentive plan. The Board is ultimately responsible for the approval of all incentive plans in the bank which will be based on the recommendation of the NRC;

c) The IOC is responsible for establishing the processes for incentive plan administration and payments; and

d) The IOC monitors incentive plan results against a set defined KRI's on a quarterly basis and alerts management in case of potential disconnects between performance results and planned incentive payments.

Salient Features of the BSF Compensation Policy

The Bank utilises 4 key Reward Principles which are aligned to the Bank's overall strategic direction. The 4 Rewards Principles underpin the design and execution of the Bank's compensation policy and practices:

1st Reward Principle: Pay for Performance:

The Bank's policy ensures, through fixed and variable forms of compensation, the recognition of high performance and the differentiation between varying levels of performance at the Bank's different levels: individual, group/division and bank-wide, based on the seniority of the role within the bank, whilst also ensuring the independency of the control functions.

2nd Reward Principle: Flexibility:

The Bank's compensation policy is flexible enough in order to facilitate an internal job market, and flexible enough in order to cater to the evolving requirements of the Bank in an evolving banking industry.

3rd Reward Principle: Competitiveness:

The Bank monitors market trends closely and reviews its compensation against a selected peer group of banks. This is to ensure that the Bank remains able to attract, engage and retain the required talent.

4th Reward Principle: Risk Alignment:

The Bank's compensation policy ensures that the correct risk mitigation measures are applied, such as: variable compensation deferral and clawback arrangements, as appropriate.

General description

Benefits payable to the employees of the Bank at the end of their services are accrued based on actuarial valuation conducted by an independent actuary, taking into accounts the provision of the Saudi Arabian Labor Law. The actuarial gains/losses for the year ended 31 December 2019, are not material to the consolidated financial statements taken as a whole.

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

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

SAR '000	2019	2018
Defined benefit obligation at the beginning of the year	**452,753**	450,594
Current service cost charge for the year	**43,007**	40,923
Interest cost	**16,551**	15,359
Benefits paid	**(57,283)**	(48,322)
Unrecognised actuarial gain	**(14,146)**	(5,801)
Defined benefit obligation at the end of the year	**440,882**	452,753

SAR '000	2019	2018
Charge for the year		
Current service cost	**43,007**	40,923
Interest cost	**16,551**	15,359
Total	**59,558**	56,282

Principal actuarial assumptions (in respect of the employee benefit scheme)	2019	2018
Discount rate	**3.0% p.a.**	3.9% p.a.
Expected rate of salary increase	**3.5% p.a.**	5% p.a.
Normal retirement age	**58 years**	58 years

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

Sensitivity of actuarial assumptions

The table below illustrates the sensitivity of the Defined Benefit Obligation valuation as at December 31, 2019 and 2018 to the discount rate, salary escalation rate, withdrawal assumptions and mortality rates.

SAR '000	2019	2018
Discount rate – decrease by 0.5%	**459,806**	471,828
Future salary growth – increase by 0.5%	**459,617**	471,528
Retirement age – increase by one year	**442,682**	455,749

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

Expected maturity analysis of discounted define benefit obligation for the end of service plan is as follows:

SAR '000	2019	2018
Less than 1 year	**39,822**	46,211
1 to 5 years	**44,737**	50,665
Above 5 years	**356,323**	355,877
Total	**440,882**	452,753

31. Operating segments

Operating segments are identified on the basis of internal reports about components of the Bank that are regularly reviewed by the Bank's Board of Directors in its function as chief decision maker in order to allocate resources to the segments and to assess its performance.

Transactions between operating segments are approved by the management as per agreed terms and are reported according to the Bank's internal transfer pricing policy. These terms are in line with normal commercial terms and conditions. The revenue from external parties report to the Board is measured in a manner consistent with that in the consolidated statement of income.

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since December 31, 2018. The Bank's primary business is conducted in the Kingdom of Saudi Arabia.

a) The Bank's reportable segments under IFRS 8 are as follows:

Retail Banking – incorporates private and small establishment customers' demand accounts, overdrafts, loans, saving accounts, deposits, credit and debit cards, consumer loans, certain forex products and auto leasing.

Corporate Banking – incorporates corporate and medium establishment customers' demand accounts, deposits, overdrafts, loans and other credit facilities and derivative products.

Treasury – incorporates treasury services, trading activities, investment securities, money market, Bank's funding operations and derivative products.

Investment banking and brokerage – Investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities, retail investments products, corporate finance and international and local shares brokerage services and insurance.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit as included in the internal management reports that are reviewed by chief decision maker. Segment profit is used to measure performance as the management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

Notes to the Consolidated Financial Statements continued
For the years ended December 31, 2019 and 2018

31. Operating segments continued
a) The Bank's reportable segments under IFRS 8 are as follows: continued
The Bank's total assets and liabilities as at December 31, 2019 and 2018, its total operating income and expenses, share in earnings/(losses) of associates and its net income attributable to equity holders of the Bank for the years then ended by operating segments, are as follows:

SAR '000	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Total
2019					
Total assets	**23,704,697**	**103,245,226**	**49,633,429**	**1,565,225**	**178,148,577**
Investment in associates	**–**	**–**	**9,695**	**–**	**9,695**
Total liabilities	**70,547,235**	**64,397,001**	**8,748,442**	**1,509,181**	**145,201,859**
Total operating income	**1,884,766**	**3,059,771**	**1,634,338**	**293,675**	**6,872,550**
Total operating expenses before impairment charge	**1,104,693**	**634,758**	**367,497**	**180,216**	**2,287,164**
Impairment charges for financial assets, net	**277,497**	**682,921**	**5,826**	**–**	**966,244**
Net income for the year before zakat and income tax	**502,576**	**1,742,092**	**1,261,015**	**113,459**	**3,619,142**
Results					
Net special commission income	**1,563,868**	**2,355,136**	**1,223,783**	**62,890**	**5,205,677**
Fees and commission income, net	**213,750**	**698,998**	**(4,027)**	**230,785**	**1,139,506**
Exchange income, net	**46,802**	**3,008**	**285,694**	**–**	**335,504**
Trading income, net	**–**	**–**	**92,163**	**–**	**92,163**
Inter-segment revenue	**1,079,552**	**248,011**	**(1,327,563)**	**–**	**–**
Depreciation and amortization	**129,704**	**55,854**	**22,112**	**3,614**	**211,284**
2018					
Total assets (restated)	19,763,892	102,522,524	66,629,360	1,334,501	190,250,277
Investment in associates	–	–	9,695	–	9,695
Total liabilities	70,767,490	78,633,093	8,734,008	1,253,736	159,388,327
Total operating income	1,751,019	3,092,645	1,677,008	277,972	6,798,644
Share in earnings of associates, net	–	–	2,529	–	2,529
Total operating expenses before impairment charge	1,115,237	621,447	380,193	174,448	2,291,325
Impairment charges for financial assets, net	158,108	1,014,449	30,237	–	1,202,794
Net income for the year before zakat and income tax	477,674	1,456,749	1,269,107	103,524	3,307,054
Results					
Net special commission income	1,430,454	2,417,918	1,105,062	63,438	5,016,872
Fees and commission income, net	204,655	671,157	5,157	214,534	1,095,503
Exchange income, net	50,128	3,023	294,022	–	347,173
Trading income, net	–	–	194,257	–	194,257
Inter-segment revenue	974,364	224,577	(1,198,941)	–	–
Depreciation and amortization	90,167	39,869	19,500	4,630	154,166

b) The Bank's credit exposure by operating segments is as follows:

SAR '000	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Total
2019					
Balance Sheet assets	**22,456,683**	**103,027,147**	**42,077,259**	**1,491,491**	**169,052,580**
Commitments and contingencies	**244,591**	**30,684,769**	**–**	**–**	**30,929,360**
Derivatives	**–**	**–**	**5,513,287**	**–**	**5,513,287**
2018					
Balance Sheet assets (restated)	18,577,664	102,252,269	62,776,526	1,267,133	184,873,592
Commitments and contingencies	239,012	30,185,530	–	–	30,424,542
Derivatives	–	–	5,738,081	–	5,738,081

Credit exposure comprises the carrying value of balance sheet assets excluding cash, property and equipment, positive fair value of derivative, deferred tax, other assets, credit equivalent value of commitments, contingencies and derivatives & other real estate. The credit equivalent value of commitments, contingencies and derivatives are included in credit exposure.

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

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

The Risk Committee is responsible for managing risk decisions and monitoring risk levels and reports on a weekly basis to the Supervisory Board.

The Bank manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also credit risk in off–balance sheet financial instruments, such as loan commitments.

The Bank assesses the probability of default of counterparties using internal rating tools with an overlay of credit assessment, where necessary. Also the Bank uses the external ratings, of the major rating agency, where available.

The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Bank's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits.

Actual exposures against limits are monitored daily. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk. The Bank's credit risk for derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfil their obligation, and to control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

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

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

The Bank seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business. It also takes collateral/security when appropriate. The Bank also seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

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

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

The debt securities included in the investment portfolio are mainly sovereign risk. For analysis of investments by counterparty and the details of the composition of investments, and loans and advances, refer to notes 6 and 7, respectively. Information on credit risk relating to derivative instruments is provided in note 11 and for commitments and contingencies in note 19. The information on Banks maximum credit exposure by business segment is given in note 31.

Notes to the Consolidated Financial Statements continued

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32. Financial Risk Management continued

Geographical concentration

a) The distribution by geographical region for major categories of assets, liabilities, commitments and contingencies and credit exposure accounts is as follows:

SAR '000	Saudi Arabia	Middle East	Europe	North America	Other Countries	Total
2019						
Assets						
Cash and balances with SAMA						
Cash in hand	995,416	-	-	-	-	995,416
Balances with SAMA	8,121,920	-	-	-	-	8,121,920
Due from banks and other financial institutions						
Current account	-	94,350	853,248	1,173,804	35,815	2,157,217
Money market placements	1,080,457	304,024	-	200,392	-	1,584,873
Investments, net						
Held as FVTPL	55,194	12,664	-	-	7,554	75,412
FVOCI	6,420,015	790,542	119,528	1,870,702	60,128	9,260,915
Investments held at amortised cost	22,117,452	-	-	-	-	22,117,452
Investment in associates	-	9,695	-	-	-	9,695
Positive fair value of derivatives						
Held for trading	1,149,458	293,043	981,804	120,714	650,642	3,195,661
Held as cash flow hedges	169,536	67,739	657,268	425,073	91,274	1,410,890
Loans and advances, net						
Over draft and commercial loans	105,828,376	1,388,259	351,910	-	289,714	107,858,259
Credit cards	417,247	-	-	-	9	417,256
Consumer loans	17,449,581	-	-	-	-	17,449,581
Property and equipment, net	1,324,567	-	-	-	-	1,324,567
Other assets, deferred tax and other real estate	1,530,438	-	511,200	127,822	3	2,169,463
Total assets	166,659,657	2,960,316	3,474,958	3,918,507	1,135,139	178,148,577

SAR '000	Saudi Arabia	Middle East	Europe	North America	Other Countries	Total
2019						
Liabilities						
Due to banks and other financial institutions						
Current accounts	1,300	461,639	58,980	29,492	3,005	554,416
Money market deposits	-	9,821	908,968	898,935	-	1,817,724
Customers' deposits						
Demand	67,423,708	97,509	4,405	109	206,770	67,732,501
Time	59,359,866	119,072	-	-	-	59,478,938
Saving	591,823	-	-	-	2	591,825
Other	5,033,580	585	73	-	-	5,034,238
Negative fair value of derivatives						
Held for trading	845,083	71,239	1,021,893	319,375	798,581	3,056,171
Held as cash flow hedges	-	38	10,834	2,363	-	13,235
Other liabilities	5,897,291	-	446,839	477,029	101,652	6,922,811
	139,152,651	759,903	2,451,992	1,727,303	1,110,010	145,201,859
Commitments and contingencies						
Letters of credit	8,333,751	193,131	103,026	-	203,109	8,833,017
Letters of guarantee	34,420,006	564,340	2,568,506	242,317	133,645	37,928,814
Acceptances	2,211,704	3,418	947	-	30,030	2,246,099
Irrevocable commitments to extend credit	4,100,980	515,786	-	-	-	4,616,766
Total	49,066,441	1,276,675	2,672,479	242,317	366,784	53,624,696
Maximum Credit exposure (stated at credit equivalent amounts)						
Derivatives	2,392,265	637,089	2,332,141	25,612	126,180	5,513,287
Total	2,392,265	637,089	2,332,141	25,612	126,180	5,513,287
Commitments and contingencies						
Letters of credit	3,817,973	38,626	20,605	-	40,622	3,917,826
Letters of guarantee	20,977,809	306,353	1,321,316	133,275	71,236	22,809,989
Acceptances	2,211,704	3,418	947	-	30,030	2,246,099
Irrevocable commitments to extend credit	1,697,553	257,893	-	-	-	1,955,446
Total	28,705,039	606,290	1,342,868	133,275	141,888	30,929,360

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For the years ended December 31, 2019 and 2018

32. Financial Risk Management continued

Geographical concentration continued

SAR '000	Saudi Arabia	Middle East	Europe	North America	Other Countries	Total
2018						
Assets						
Cash and balances with SAMA						
Cash in hand	1,004,106	–	–	–	–	1,004,106
Balances with SAMA	19,921,754	–	–	–	–	19,921,754
Due from banks and other financial institutions						
Current account	–	141,523	3,366,923	2,611,998	48,172	6,168,616
Money market placements	6,329,565	2,479,011	862,533	98,804	–	9,769,913
Investments, net						
Held as FVTPL	38,357	281,002	37,389	–	–	356,748
FVOCI	4,795,105	732,528	113,873	–	–	5,641,506
Investments held at amortised cost	22,373,726	–	–	–	–	22,373,726
Investment in associates	–	9,695	–	–	–	9,695
Positive fair value of derivatives						
Held for FVTPL	280,701	161,640	960,663	70,136	–	1,473,140
Held as cash flow hedges	62,800	47,378	336,769	12,377	–	459,324
Loans and advances, net						
Over draft and commercial loans	105,553,640	671,836	499,008	–	444,928	107,169,412
Credit cards	456,541	–	–	–	31	456,572
Consumer loans	13,005,650	–	–	–	–	13,005,650
Property and equipment, net	690,369	–	–	–	–	690,369
Other assets, deferred tax and other real estate	1,441,283	–	253,252	55,211	–	1,749,746
Total assets	175,953,597	4,524,613	6,430,410	2,848,526	493,131	190,250,277

SAR '000	Saudi Arabia	Middle East	Europe	North America	Other Countries	Total
2018						
Liabilities						
Due to banks and other financial institutions						
Current accounts	14	102,211	105,911	35,383	8,421	251,940
Money market deposits	638,252	1,139,247	–	–	116,042	1,893,541
Customers' deposits						
Demand	67,381,526	219,833	8,280	6,225	176,364	67,792,228
Time	75,471,338	18,799	–	–	192,041	75,682,178
Saving	547,698	–	–	–	4	547,702
Other	4,341,435	4,388	73	–	–	4,345,896
Negative fair value of derivatives						
Held for trading	433,969	71,876	753,696	42,870	793	1,303,204
Held as cash flow hedges	7,447	11,977	90,473	1,027	–	110,924
Debt securities and sukuks	2,003,340	–	–	–	–	2,003,340
Other liabilities	5,127,262	23,651	89,914	216,547		5,457,374
	155,952,281	1,591,982	1,048,347	302,052	493,665	159,388,327
Commitments and contingencies						
Letters of credit	7,038,224	205,643	190,662	86,313	397,260	7,918,102
Letters of guarantee	36,644,343	707,796	2,653,666	252,158	1,031,556	41,289,519
Acceptances	1,803,376	6,571	–	–	62,880	1,872,827
Irrevocable commitments to extend credit	2,768,812	–	46,667	–	–	2,815,479
Total	48,254,755	920,010	2,890,995	338,471	1,491,696	53,895,927
Maximum Credit exposure (stated at credit equivalent amounts)						
Derivatives	2,289,784	531,086	2,518,285	398,926	–	5,738,081
Total	2,289,784	531,086	2,518,285	398,926	–	5,738,081
Commitments and contingencies						
Letters of credit	3,077,663	41,129	38,132	17,263	79,452	3,253,639
Letters of guarantee	21,699,287	366,801	1,330,490	138,346	568,652	24,103,576
Acceptances	1,803,376	6,571	–	–	62,880	1,872,827
Irrevocable commitments to extend credit	1,185,167	–	9,333	–	–	1,194,500
Total	27,765,493	414,501	1,377,955	155,609	710,984	30,424,542

b) Credit quality analysis

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

Due from Bank and Other financial institutions

	December 31, 2019			
SAR '000	**12 month ECL**	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Investment grade	**3,703,022**	**3,381**	**–**	**3,706,403**
Non-investment grade	**31,932**	**3,049**	**–**	**34,981**
Unrated	**–**	**1,079**	**–**	**1,079**
Carrying amount	**3,734,954**	**7,509**	**–**	**3,742,463**

Notes to the Consolidated Financial Statements continued

For the years ended December 31, 2019 and 2018

32. Financial Risk Management continued

SAR '000	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
	December 31, 2018			
Investment grade	15,746,425	–	–	15,746,425
Non-investment grade	2,659	192,297	–	194,956
Unrated	–	–	–	–
Carrying amount	15,749,084	192,297	–	15,941,381

Loans and advances to customers at amortised cost

SAR '000	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
	December 31, 2019			
Loans and advances to customers at amortised cost				
Very strong quality including sovereign (A+ to B)	**19,187,487**	**6**	**–**	**19,187,493**
Good quality (C+ to C)	**43,406,075**	**369,566**	**–**	**43,775,641**
Satisfactory quality (C- to E +)	**32,219,262**	**4,867,617**	**–**	**37,086,879**
Unrated	**16,722,300**	**266,130**	**–**	**16,988,430**
Special mention (E to E -)	**2,450,572**	**6,502,348**	**24,524**	**8,977,444**
Impaired	**–**	**–**	**3,417,497**	**3,417,497**
Carrying amount	**113,985,696**	**12,005,667**	**3,442,021**	**129,433,384**

SAR '000	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
	December 31, 2018			
Loans and advances to customers at amortised cost				
Very strong quality including sovereign (A+ to B)	21,708,512	46,778	–	21,755,290
Good quality (C+ to C)	41,026,116	570,026	–	41,596,142
Satisfactory quality (C- to E +)	32,368,426	4,628,922	–	36,997,348
Unrated	10,274,595	1,279,145	–	11,553,740
Special mention (E to E -)	2,338,098	6,826,204	–	9,164,302
Impaired	–	–	3,625,166	3,625,166
Carrying amount	107,715,747	13,351,075	3,625,166	124,691,988

c) The following table sets out information about the credit quality of Loans and advances to customers at amortised cost on a product basis.

Overdraft & Commercial loans

SAR '000	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
	December 31, 2019			
Loans and advances to customers at amortised cost : Overdraft & Commercial loans				
Very strong quality including sovereign (A+ to B)	**19,187,487**	**6**	**–**	**19,187,493**
Good quality (C+ to C)	**43,406,075**	**369,566**	**–**	**43,775,641**
Satisfactory quality (C- to E +)	**32,219,262**	**4,867,617**	**–**	**37,086,879**
Special mention (E to E -)	**1,710,336**	**6,210,209**	**–**	**7,920,545**
Impaired	**–**	**–**	**3,126,851**	**3,126,851**
Carrying amount	**96,523,160**	**11,447,398**	**3,126,851**	**111,097,409**

SAR '000	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
	December 31, 2018			
Loans and advances to customers at amortised cost: Overdraft & Commercial loans				
Very strong quality including sovereign (A+ to B)	21,708,512	46,778	–	21,755,290
Good quality (C+ to C)	41,026,116	570,026	–	41,596,142
Satisfactory quality (C- to E +)	32,368,426	4,628,922	–	36,997,348
Special mention (E to E -)	1,025,823	6,169,427	–	7,195,250
Impaired	–	–	3,257,188	3,257,188
Carrying amount	96,128,877	11,415,153	3,257,188	110,801,218

Credit Cards

SAR '000	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
	December 31, 2019			
Loans and advances to customers at amortised cost : Credit Cards				
Unrated	**320,536**	**1,248**	**–**	**321,784**
Special mention (E to E -)	**94,971**	**24,726**	**13,536**	**133,233**
Impaired	**–**	**–**	**59,068**	**59,068**
Carrying amount	**415,507**	**25,974**	**72,604**	**514,085**

SAR '000	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
	December 31, 2018			
Loans and advances to customers at amortised cost : Credit Cards				
Unrated	349,782	105,344	–	455,126
Special mention (E to E -)	713	940	–	1,653
Impaired	–	–	80,568	80,568
Carrying amount	350,495	106,284	80,568	537,347

Consumer Loans

SAR '000	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
	December 31, 2019			
Loans and advances to customers at amortised cost : Consumer Loans				
Unrated	**16,401,764**	**264,882**	**–**	**16,666,646**
Special mention (E to E -)	**645,265**	**267,413**	**10,988**	**923,666**
Impaired	**–**	**–**	**231,578**	**231,578**
Carrying amount	**17,047,029**	**532,295**	**242,566**	**17,821,890**

SAR '000	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
	December 31, 2018			
Loans and advances to customers at amortised cost : Consumer Loans				
Unrated	9,924,813	1,173,801	–	11,098,614
Special mention (E to E -)	1,311,562	655,837	–	1,967,399
Impaired	–	–	287,410	287,410
Carrying amount	11,236,375	1,829,638	287,410	13,353,423

Very strong quality: Capitalization, earnings, financial strength, liquidity, management, market reputation and repayment ability are excellent.

Good quality: Capitalization, earnings, financial strength, liquidity, management, market reputation and repayment ability are good.

Satisfactory quality: Facilities require regular monitoring due to financial risk factors. Ability to repay remains at a satisfactory level.

Special mention: Facilities require close attention of management due to deterioration in the borrowers' financial condition. However, repayment is currently protected.

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32. Financial Risk Management continued

SAR '000	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
	December 31, 2019			
Debt investment securities at amortised cost				
Investment grade	**17,293,706**	**–**	**–**	**17,293,706**
Non-investment grade	**–**	**–**	**–**	**–**
Unrated	**4,833,889**	**–**	**–**	**4,833,889**
Individually impaired	**–**	**–**	**–**	**–**
Carrying amount	**22,127,595**	**–**	**–**	**22,127,595**

SAR '000	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
	December 31, 2018			
Debt investment securities at amortised cost				
Investment grade	20,669,304	–	–	20,669,304
Non-investment grade	–	–	–	–
Unrated	1,739,451	–	–	1,739,451
Individually impaired	–	–	187,500	187,500
Carrying amount	22,408,755	–	187,500	22,596,255

SAR '000	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
	December 31, 2019			
Debt investment securities at FVOCI				
Investment grade	**5,950,668**	**–**	**–**	**5,950,668**
Non-investment grade	**–**	**–**	**–**	**–**
Unrated	**3,202,482**	**–**	**–**	**3,202,482**
Carrying amount	**9,153,150**	**–**	**–**	**9,153,150**

SAR '000	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
	December 31, 2018			
Debt investment securities at FVOCI				
Investment grade	1,789,095	–	–	1,789,095
Non-investment grade	–	–	–	–
Unrated	3,722,624	–	–	3,722,624
Carrying amount	5,511,719	–	–	5,511,719

SAR '000	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
	December 31, 2019			
Commitments and contingencies				
Very strong quality including sovereign (A+ to B)	**9,282,188**	**–**	**–**	**9,282,188**
Good quality (C+ to C)	**8,368,626**	**1,000**	**–**	**8,369,626**
Satisfactory quality (C- to E +)	**9,994,131**	**869,982**	**–**	**10,864,113**
Special mention (E to E -)	**–**	**465,414**	**–**	**465,414**
Impaired	**–**	**–**	**684,563**	**684,563**
Carrying amount	**27,644,945**	**1,336,396**	**684,563**	**29,665,904**

SAR '000	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
	December 31, 2018			
Commitments and contingencies				
Very strong quality including sovereign (A+ to B)	9,082,542	5,897	–	9,088,439
Good quality (C+ to C)	5,947,901	175,173	–	6,123,074
Satisfactory quality (C- to E +)	11,660,345	441,925	–	12,102,270
Special mention (E to E -)	–	977,408	–	977,408
Impaired	–	–	691,669	691,669
Carrying amount	26,690,788	1,600,403	691,669	28,982,860

The following table sets out the credit analysis for trading financial assets measured at FVTPL.

SAR '000	2019	2018
Investment securities		
Investment grade	**73,388**	339,573
Non-investment grade	**–**	–
Unrated	**2,024**	17,175
Total carrying amount	**75,412**	356,748

d) Amounts arising from ECL – Significant increase in credit risk

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

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:
- defining an absolute threshold rating for stage 2 assets
- days past due count
- slippage in rating notches
- change in PD % since origination for Retail assets

Credit risk grades

The Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12 months ECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the Lifetime ECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

Stage 3: Loans considered credit-impaired. The bank records an allowance for the Lifetime ECL.

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

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

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

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

Notes to the Consolidated Financial Statements continued

For the years ended December 31, 2019 and 2018

32. Financial Risk Management continued

Corporate exposures	Retail exposures	All exposures
– Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality management, and senior management changes. – Data from credit reference agencies, press articles, changes in external credit ratings – Quoted bond and credit default swap (CDS) prices for the borrower where available – Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities	– Internally collected data and customer behaviour – e.g. utilization of credit card facilities – Affordability metrics – External data from credit reference agencies including industry-standard credit scores	– Payment record – this includes overdue status as well as a range of variables about payment ratios – Utilization of the granted limit – Requests for and granting of forbearance – Existing and forecast changes in business, financial and economic conditions

i) Generating the term structure of PD

Credit Risk grades mapped to probabilities, Credit transition probabilities and Macroeconomic inputs determine the term structure of Probability of Default. The Bank collects performance and default information about its credit risk exposures analysed by type of product and borrower as well as by credit risk grading. For some portfolios, information derived from external credit reference agencies is also used.

The Bank employs analytical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. Forward looking predictions of key macro-economic indicators e.g. GDP growth, inflation, unemployment or CDS spreads are translated analytically into the impact on Risk Factors, especially PD. For most of corporate portfolio exposures, key macro- economic indicators include: GDP, Brent oil prices, expectation of government spending, expectation of stock market return/volatility, cost of funding under SIBOR, lending rate estimations and credit growth & availability. For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices. While for retail portfolio, key macro-economic indicators include: GDP, un-employment rates, changes in personal income/salary levels based on record of current accounts, personal indebtedness and expected interest repricing.

Based on advice from the Bank Market Risk Committee and economic experts and consideration of a variety of external actual and forecast information, the Bank formulates a ‘base case’ view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Bank then uses these forecasts to adjust its estimates of PDs.

ii) Determining whether credit risk has increased significantly

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

This is assessed by defining an absolute threshold rating for stage 2 assets, days past due count, slippage in rating notches, change in PD % since origination for Retail assets and qualitative measures specific to each exposure class, which is enshrined in the Board approved Staging Policy.

Using its expert credit judgment and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due though technical rebuttals on a case by case basis is possible exceptionally. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:
- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

iii) Modified financial assets

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

The Bank computes the gross carrying amounts using Cash-flows for both the pre-modified Terms and post-modification terms with original Interest Rate as EIR. If the difference in the gross carrying amounts is more than the set threshold, the asset will be de-recognised and will be re-recognised as POCI (assuming that the modification is being undertaken in connection with forbearance or a defaulted exposure).

When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the asset’s credit risk has increased significantly reflects comparison of:
- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

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

The revised terms usually include extending the maturity, changing the timing of special commission income payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Bank Credit Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Bank’s forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank’s ability to collect special commission income and principal and the Bank’s previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower’s payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired /in default. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL in case of assets with significant increase in credit risk.

iv) Definition of ‘Default’

The Bank considers a financial asset to be in default when:
- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Bank. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

In assessing whether a borrower is in default. The Bank considers indicators that are:
- qualitative e.g. breaches of covenant;
- quantitative e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

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

Notes to the Consolidated Financial Statements continued

For the years ended December 31, 2019 and 2018

32. Financial Risk Management continued

v) Incorporation of forward looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly by its view on the future evolving macroeconomic environment. Based on advice from the Bank Market Risk Committee and economic experts and consideration of a variety of external actual and forecast information, the Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the Kingdom and selected private-sector and academic forecasters.

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

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and losses. The economic scenarios used as at 31 December 2019 included the following ranges of key indicators.
- Investment as percent of GDP
- National Savings as percent of GDP
- Inflation
- Gross Government debt
- Credit default spreads etc.

Predicted relationships between the key indicators and default loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 10 to 15 years.

vi) Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:
a. probability of default (PD);
b. loss given default (LGD);
c. exposure at default (EAD).

These parameters are generally derived from internally developed statistical models, regulatory inputs (e.g. in case of LGD) and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on analytical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These analytical models are based on internally and externally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. PD's are estimated considering the contractual maturities of exposures and estimated prepayment rates for Retail personal finance exposures.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. They are calculated on a discounted cash flow basis using the effective commission rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts or Regulatory guidelines. For some financial assets, EAD is determined by modeling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options for indeterminate maturity products) over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for retail overdrafts and credit card facilities that include both a loan and an undrawn commitment component, the Bank measures ECL over a period longer than the maximum contractual period if the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management but only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take and that serve to mitigate ECL. These include a reduction in limits. Cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms. The portfolios for which external benchmark information represents a significant input into measurement of ECL is Non Retail portfolio where the Bank has used LGD estimates as per BASEL guidelines.

Where modeling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:
- instrument type;
- credit risk grading;
- collateral type;
- LTV ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

The Banking sector is subject to regular review to ensure that exposures within a particular Bank remain appropriately homogeneous. The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at 31 December 2019 included the following ranges of key indicators.

Economic Indicators	**2019**	2018
Gross National Savings % of GDP	**Upside 20.6** **Base case 29.3** **Downside 38.1**	Upside 24.7 Base case 33.4 Downside 42.3
Current Account Balance % of GDP	**Upside 15.9** **Base case 4.4** **Downside -7.1**	Upside 16.7 Base case 5.4 Downside -5.9
Inflation – Avg Consumer Price % change	**Upside -2.9** **Base case -1.1** **Downside 0.8**	Upside 1.8 Base case 3.7 Downside 5.6
Volume of Import of Goods & Services % change	**Upside -8.3** **Base case 2.5** **Downside 13.3**	Upside -8.6 Base case 2.3 Downside 13.2
Total Investment % of GDP	**Upside 29.2** **Base case 24.9** **Downside 20.7**	Upside 32.7 Base case 28 Downside 23.4
General Government Gross Debt – National currency Billions	**Upside 497.5** **Base case 677.7** **Downside 857.9**	Upside 367.3 Base case 560.3 Downside 753.3
General Government Net Lending/Borrowing – National currency Billions	**Upside -461.7** **Base case -178.5** **Downside 104.7**	Upside -481.1 Base case -205.2 Downside 70.7

Notes to the Consolidated Financial Statements continued

For the years ended December 31, 2019 and 2018

32. Financial Risk Management continued

The table below shows the sensitivity of change in economic indicators to the ECL computed under three different scenarios used by Bank .

SAR '000	Due from bank and other financial institutions	Debt instrument at AC	Debt instrument at FVOCI	Loans and advances	Off statement of financial position	Total
2019						
Most likely (base case)	**373**	**10,143**	**11,941**	**3,696,055**	**555,669**	**4,274,181**
More optimistic (upside)	**373**	**10,143**	**11,941**	**3,680,895**	**555,115**	**4,258,467**
More pessimistic (downside)	**373**	**10,143**	**11,941**	**3,753,527**	**557,119**	**4,333,103**
Closing provision	**373**	**10,143**	**11,941**	**3,708,288**	**555,938**	**4,286,683**
2018						
Most likely (base case)	2,852	222,529	5,346	4,000,889	577,605	4,809,221
More optimistic (upside)	2,852	222,529	5,346	3,968,218	577,076	4,776,021
More pessimistic (downside)	2,852	222,529	5,346	4,058,167	578,551	4,867,445
Closing provision	2,852	222,529	5,346	4,060,354	577,730	4,868,811

Ageing of loans and advances (past due but not impaired)

	2019			
SAR '000	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Total
From 1 day to 30 days	**257,964**	**33,110**	**685,677**	**976,751**
From 31 days to 90 days	**109,611**	**8,878**	**241,197**	**359,686**
From 91 days to 180 days	**149,627**	**–**	**–**	**149,627**
More than 180 days	**352,502**	**–**	**–**	**352,502**
Loans and advances held at amortised cost, net	**869,704**	**41,988**	**926,874**	**1,838,566**

	2018			
SAR '000	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Total
From 1 day to 30 days	309,816	43,656	1,098,981	1,452,453
From 31 days to 90 days	294,247	17,147	423,323	734,717
From 91 days to 180 days	28,848	–	–	28,848
More than 180 days	176,360	–	–	176,360
Loans and advances held at amortised cost, net	809,271	60,803	1,522,304	2,392,378

e) Economic sector risk concentrations for the loans and advances and allowance for impairment losses are as follows:

SAR '000	Performing	Non Performing, net	Allowance for impairment losses	Loans and advances, net
2019				
Government and quasi Government	**5,016,656**	**–**	**(3,125)**	**5,013,531**
Banks and other financial institutions	**2,255,428**	**–**	**(14,284)**	**2,241,144**
Agriculture and fishing	**1,723,212**	**56,793**	**(54,321)**	**1,725,684**
Manufacturing	**20,235,685**	**602,930**	**(724,029)**	**20,114,586**
Mining and quarrying	**2,178,620**	**–**	**(14,152)**	**2,164,468**
Electricity, water, gas and health services	**11,122,151**	**38,381**	**(71,563)**	**11,088,969**
Building and construction	**9,656,235**	**954,696**	**(815,621)**	**9,795,310**
Commerce	**24,264,354**	**878,492**	**(974,013)**	**24,168,833**
Transportation and communication	**6,004,584**	**12,922**	**(40,591)**	**5,976,915**
Services	**14,551,688**	**78,197**	**(253,871)**	**14,376,014**
Consumer loans and credit cards	**18,045,329**	**290,646**	**(469,138)**	**17,866,837**
Others	**10,961,945**	**504,440**	**(273,580)**	**11,192,805**
Total	**126,015,887**	**3,417,497**	**(3,708,288)**	**125,725,096**
2018				
Government and quasi Government	4,831,553	–	(3,750)	4,827,803
Banks and other financial institutions	2,803,820	3,379	(19,160)	2,788,039
Agriculture and fishing	2,300,281	72,055	(94,884)	2,277,452
Manufacturing	20,350,388	685,035	(661,679)	20,373,744
Mining and quarrying	2,398,659	–	(44,713)	2,353,946
Electricity, water, gas and health services	7,362,128	21,684	(47,520)	7,336,292
Building and construction	8,950,847	1,290,298	(1,159,459)	9,081,686
Commerce	26,621,705	752,682	(1,150,270)	26,224,117
Transportation and communication	6,103,442	16,332	(47,046)	6,072,728
Services	13,431,898	151,784	(282,968)	13,300,714
Consumer loans and credit cards	13,522,792	367,978	(428,548)	13,462,222
Others	12,389,309	263,939	(120,357)	12,532,891
Total	121,066,822	3,625,166	(4,060,354)	120,631,634

f) Collateral

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

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

SAR '000	2019	2018
Collateral coverage – less than 50%	**2,544,622**	3,020,322
Collateral coverage – 51 to 70%	**122,513**	49,573
Collateral coverage – more than 70%	**750,362**	555,271
Total	**3,417,497**	3,625,166

33. Market Risk

Market Risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as Interest rates, Foreign Exchange rates and Equity prices. The Bank classifies Market Risk exposures into either Trading or non-trading or Banking Book.

Market Risk within Trading & Banking Book is managed and monitored using various indicators such as Value at Risk, Stress Testing and Sensitivities analysis.

a) Market Risk – Trading book

The Board has set limits for the acceptable level of risks in managing the Trading Book. In order to manage the Market Risk in Trading Book, the Bank applies on a daily basis a VAR methodology in order to assess the Market Risk positions held and also to estimate the potential economic loss based on a set of assumptions and changes in market conditions.

Notes to the Consolidated Financial Statements continued

For the years ended December 31, 2019 and 2018

33. Market Risk continued

a) Market Risk – Trading book continued

A VAR methodology estimates the potential negative change in market value of a portfolio at a given confidence level and over a specified time horizon. The Bank uses simulation models to assess the possible changes in the market value of the trading book based on historical data. VAR models are usually designed to measure the market risk in a normal market environment and therefore the use of VAR has limitations because it is based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical distribution.

The VAR that the Bank measures is an estimate, using a confidence level of 99% of the potential loss that is not expected to be exceeded if the current market positions were to be held unchanged for one day. The use of 99% confidence level depicts that within a one-day horizon, losses exceeding VAR figure should occur, on average, not more than once every hundred days. A specific process of VAR back testing is performed on a daily basis.

The VAR represents the risk of portfolios at the close of a business day, and it does not account for any losses that may occur beyond the defined confidence interval. The actual trading results however, may differ from the VAR calculations and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions.

To overcome the VAR limitations mentioned above, the Bank also carries out Stress tests of its portfolio to simulate conditions outside normal confidence intervals. The potential losses occurring under Stress test conditions are reported regularly to the Bank's ALM and Market Risk committees for their review.

The Bank's VaR related information for the year ended December 31, 2019 and 2018 are follows:

SAR '000	Foreign exchange rate	Special commission rate risk	Overall Trading
2019			
VaR as at December 31, 2019	**11**	**1,097**	**1,093**
Average VaR for 2019	**83**	**1,454**	**1,451**
Maximum VaR for 2019	**552**	**2,720**	**2,703**
Minimum VaR for 2019	**8**	**733**	**706**
2018			
VaR as at December 31, 2018	29	2,720	2,703
Average VaR for 2018	96	2,961	2,963
Maximum VaR for 2018	419	5,324	5,274
Minimum VaR for 2018	9	1,454	1,450

Overall Trading VaR incorporates compensation effect of positions coming from realised P&L in foreign currencies.

b) Market risk non- trading book

Market risk on non-trading book mainly arises from the special commission rate, foreign currency exposures and equity price changes.

i) Special commission rate risk

Special commission rate risk arises from the possibility that the changes in special commission rates will affect either the fair values or the future cash flows of the financial instruments. The Board has established special commission rate gap limits for stipulated periods. The Bank monitors positions daily and uses hedging strategies to ensure maintenance of positions within the established gap limits.

The following table depicts the sensitivity to a reasonable possible change in special commission rates, with other variables held constant, on the Bank's consolidated statement of income or equity. The sensitivity of the special commission income is the effect of the assumed changes in special commission rates with a lowest level at 0%, on the net special commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at December 31, 2019 and 2018, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate FVOCI financial assets, including the effect of any associated hedges as at December 31, 2019 and 2018 for the effect of assumed changes in special commission rate. The sensitivity of equity is analysed by maturity of the asset or swap. All the banking book exposures are monitored and analysed in currency concentrations and relevant sensitivities are disclosed in SAR thousands.

			2019				
			Sensitivity of Equity				
SAR '000 Currency	**BPS change**	**Sensitivity of special commission income**	**6 months or less**	**Over 6 months to 1 year**	**Over 1 year to 5 years**	**Over 5 years**	**Total**
USD	**+100**	**(66,069)**	**(956)**	**(1,079)**	**(3,066)**	**(1)**	**(5,102)**
	-100	**66,038**	**956**	**1,079**	**3,066**	**1**	**5,102**
SAR	**+100**	**103,436**	**(8,452)**	**(4,598)**	**(187,136)**	**(53,580)**	**(253,766)**
	-100	**(103,477)**	**8,452**	**4,598**	**187,136**	**53,580**	**253,766**

			2018				
			Sensitivity of Equity				
SAR '000 Currency	BPS change	Sensitivity of special commission income	6 months or less	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
USD	+100	(67,179)	(232)	(347)	(5,835)	(32)	(6,446)
	-100	67,175	232	347	5,835	32	6,446
SAR	+100	135,951	(9,084)	(5,190)	(234,155)	(206)	(248,635)
	-100	(136,045)	9,084	5,190	234,155	206	248,635

Special commission rate sensitivity of assets, liabilities and derivatives

The Bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market special commission rates on its financial position and cash flows. The Board sets limits on the level of mismatch of special commission rate re-pricing that may be undertaken, which is monitored daily by the Bank's Treasury.

The following table summarises the Bank's exposure to special commission rate risks. Included in the table are the Bank's financial instruments at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

The Bank is exposed to special commission rate risk as a result of mismatches or gaps in the amounts of assets, liabilities, and derivative instruments that mature or re-price in a given period. The Bank manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

SAR '000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission	Total
2019						
Assets						
Cash and balances with SAMA						
Cash in hand	–	–	–	–	**995,416**	**995,416**
Balances with SAMA	**275,000**	–	–	–	**7,846,920**	**8,121,920**
Due from banks and other financial institutions						
Current account	–	–	–	–	**2,157,217**	**2,157,217**
Money market placements	**1,284,873**	**300,000**	–	–	–	**1,584,873**
Investments, net						
Held as FVTPL	**9,954**	**65,458**	–	–	–	**75,412**
Held as FVOCI	**799,634**	**2,852,495**	**5,317,506**	**171,574**	**119,706**	**9,260,915**
Held at amortised cost	**4,950,362**	**6,388,055**	**9,923,516**	**855,519**	–	**22,117,452**
Investment in associates	–	–	–	–	**9,695**	**9,695**
Positive fair value of derivatives						
Held for trading	**2,684,512**	**386,458**	–	–	**124,691**	**3,195,661**
Held as cash flow hedges	**1,205,826**	**205,064**	–	–	–	**1,410,890**
Loans and advances, net						
Credit cards and consumer loans	**414,838**	**570,783**	**9,673,945**	**7,185,815**	**21,456**	**17,866,837**
Over draft and commercial loans	**64,448,642**	**31,316,608**	**6,903,514**	**3,837,526**	**1,351,969**	**107,858,259**
Property and equipment, net	–	–	–	–	**1,324,567**	**1,324,567**
Other assets, deferred tax and other real estate	–	–	–	–	**2,169,463**	**2,169,463**
Total assets	**76,073,641**	**42,084,921**	**31,818,481**	**12,050,434**	**16,121,100**	**178,148,577**

Notes to the Consolidated Financial Statements continued

For the years ended December 31, 2019 and 2018

33. Market Risk continued

b) Market risk non- trading book continued

SAR '000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission	Total
2019						
Liabilities and shareholders' equity						
Due to banks and other financial institutions						
Current accounts	–	–	–	–	554,416	554,416
Money market deposits	914,118	903,606	–	–	–	1,817,724
Customers' deposits						
Demand	–	–	–	–	67,732,501	67,732,501
Saving	591,825	–	–	–	–	591,825
Time	38,374,670	21,103,184	1,084	–	–	59,478,938
Other	–	–	–	–	5,034,238	5,034,238
Negative fair value of derivatives						
Held for trading	2,736,788	268,265	–	–	51,118	3,056,171
Held as cash flow hedges	6,668	6,567	–	–	–	13,235
Other liabilities	–	–	–	–	6,922,811	6,922,811
Shareholders' equity	–	–	–	–	32,946,718	32,946,718
Total liabilities and shareholders' equity	42,624,069	22,281,622	1,084	–	113,241,802	178,148,577
commission rate sensitivity						
– On statement of financial position	33,449,572	19,803,299	31,817,397	12,050,434	(97,120,702)	–
commission rate sensitivity						
– Off statement of financial position	(29,331,322)	(137,562)	29,498,239	(29,355)	–	–
Total commission rate sensitivity gap	4,118,250	19,665,737	61,315,636	12,021,079	(97,120,702)	–
Cumulative commission rate sensitivity gap	4,118,250	23,783,987	85,099,623	97,120,702	–	–

SAR '000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission	Total
2018						
Assets						
Cash and balances with SAMA						
Cash in hand	–	–	–	–	1,004,106	1,004,106
Balances with SAMA	11,755,000	–	–	–	8,166,754	19,921,754
Due from banks and other financial institutions						
Current account	–	–	–	–	6,168,616	6,168,616
Money market placements	8,520,036	1,249,877	–	–	–	9,769,913
Investments, net						
Held as FVTPL	76,498	194,115	67,532	18,603	–	356,748
Held as FVOCI	910,016	3,266,074	743,363	586,920	135,133	5,641,506
Held at amortised cost	3,586,879	1,584,965	17,201,882	–	–	22,373,726
Investment in associates	–	–	–	–	9,695	9,695
Positive fair value of derivatives						
Held for trading	1,064,499	264,827	–	–	143,814	1,473,140
Held as cash flow hedges	406,688	52,636	–	–	–	459,324
Loans and advances, net						
Credit cards and consumer loans	436,350	412,401	8,616,525	3,937,346	59,600	13,462,222
Over draft and commercial loans	58,031,637	28,193,458	15,121,118	4,650,818	1,172,381	107,169,412
Property and equipment, net	–	–	–	–	690,369	690,369
Other assets, deferred tax and other real estate	–	–	–	–	1,749,746	1,749,746
Total assets	84,787,603	35,218,353	41,750,420	9,193,687	19,300,214	190,250,277

SAR '000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission	Total
2018						
Liabilities and shareholders' equity						
Due to banks and other financial institutions						
Current accounts	–	–	–	–	251,940	251,940
Money market deposits	1,362,541	531,000	–	–	–	1,893,541
Customers' deposits						
Demand	–	–	–	–	67,792,228	67,792,228
Saving	547,702	–	–	–	–	547,702
Time	44,947,262	24,424,463	6,310,453	–	–	75,682,178
Other	–	–	–	–	4,345,896	4,345,896
Debt securities and sukuks	2,003,340	–	–	–	–	2,003,340
Negative fair value of derivatives						
Held for trading	1,108,234	166,920	–	–	28,050	1,303,204
Held as cash flow hedges	83,635	27,289	–	–	–	110,924
Other liabilities	302,134	241,707	966,828	–	3,946,705	5,457,374
Shareholders' equity	–	–	–	–	30,861,950	30,861,950
Total liabilities and shareholders' equity	50,354,848	25,391,379	7,277,281	–	107,226,769	190,250,277
commission rate sensitivity						
– On statement of financial position	34,432,755	9,826,974	34,473,139	9,193,687	(87,926,555)	–
commission rate sensitivity						
– Off statement of financial position	(40,198,066)	1,614,153	39,171,272	(587,359)	–	–
Total commission rate sensitivity gap	(5,765,311)	11,441,127	73,644,411	8,606,328	(87,926,555)	–
Cumulative commission rate sensitivity gap	(5,765,311)	5,675,816	79,320,227	87,926,555	–	–

The off statement of financial position gap represents the net notional amounts of these financial instruments, which are used to manage the special commission rate risk.

The effective special commission rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

ii) Currency Risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Board has set limits on positions by currencies, which are monitored daily, and hedging strategies are also used to ensure that positions are maintained within the limits.

The table below shows the currencies to which the Bank has a significant exposure as at December 31, 2019 and 2018 on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonable possible movement of the currency rate against SAR, with all other variables held constant, on the consolidated statement of income (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity (due to change in fair value of commission rate swaps used as cash flow hedges). A positive effect shows a potential increase in the consolidated statement of income or equity; whereas a negative effect shows a potential net reduction in the consolidated statement of income or equity.

	2019			2018		
SAR '000 Currency exposures	**Change in currency rate in %**	**Effect on net income**	**Effect on equity**	Change in currency rate in %	Effect on net income	Effect on equity
USD	**+5**	**17,136**	**543**	+5	1,450	(213)
EUR	**-3**	**(12)**	**–**	-3	(368)	–

There is no material impact on equity and net income due to change in other foreign currencies.

Notes to the Consolidated Financial Statements continued

For the years ended December 31, 2019 and 2018

33. Market Risk continued

b) Market risk non- trading book continued

iii) Currency Position

The Bank manages exposure to effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. At the end of the year, the Bank had the following significant net exposures denominated in foreign currencies:

SAR '000	2019 Long/(short)	2018 Long/(short)
US Dollar	**362,816**	299,152
Euro	**397**	12,262
Pound Sterling	**596**	1,265
Other	**15,680**	13,304
Total	**379,489**	325,983

iv) Equity Price Risk

Equity price risk refers to the risk of decrease in fair values of equities in the Bank's non-trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks.

The effect on the Bank's equity investments held as FVOCI due to reasonable possible change in equity indices, with all other variables held constant is as follows:

SAR '000	2019		2018	
Market Indices	Change in equity Price %	Effect on market value	Change in equity Price %	Effect on market value
Tadawul	**+5**	**3,906**	+5	4,207
Tadawul	**-5**	**(3,906)**	-5	(4,207)

There is no material impact on market value due to change in prices of listed international securities.

34. Liquidity Risk

Liquidity risk is the risk that the Bank will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to become unavailable immediately. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents, and readily marketable securities.

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

In accordance with the Banking Control Law and the Regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% of total customers' demand deposits, and 4% of due to banks and other financial institutions (excluding balances due to SAMA and non-resident foreign currency deposits), saving deposits, time deposits, margins of letters of credit and guarantee, excluding all type of repo deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of its deposit liabilities, in the form of cash, Saudi Government securities or assets which can be converted into cash within a period not exceeding 30 days. The Bank can also raise additional funds through repo facilities available with SAMA against its holding of Saudi Government securities.

a) Maturity analysis of assets and liabilities

The following table summarises the maturity profile of the Bank's assets and liabilities. The expected maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the final contractual maturity date and do not take into account the effective maturities as indicated by the Bank's deposit retention history. Management monitors the maturity profile to ensure that adequate liquidity is maintained. For presentation purposes all demand, saving and other deposit balances have been shown in no fixed maturity.

SAR '000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
2019						
Assets						
Cash and balances with SAMA						
Cash in hand	–	–	–	–	995,416	995,416
Balances with SAMA	275,000	–	–	–	7,846,920	8,121,920
Due from banks and other financial institutions						
Current account	–	–	–	–	2,157,217	2,157,217
Money market placements	1,284,873	300,000	–	–	–	1,584,873
Investments, net						
Held as FVTPL	7,944	12,599	54,869	–	–	75,412
Held as FVOCI	125,333	257,754	7,973,582	784,540	119,706	9,260,915
Held at amortised cost	1,480,361	6,388,055	10,623,517	3,625,519	–	22,117,452
Investment in associates	–	–	–	–	9,695	9,695
Positive fair value of derivatives						
Held for trading	71,163	411,825	2,047,420	665,253	–	3,195,661
Held as cash flow hedges	57,972	105,553	1,247,365	–	–	1,410,890
Loans and advances, net						
Credit cards and consumer loans	106,769	570,783	9,741,170	7,185,815	262,300	17,866,837
Over draft and commercial loans	14,232,457	24,533,682	27,708,454	38,435,340	2,948,326	107,858,259
Property and equipment, net	–	–	–	–	1,324,567	1,324,567
Other assets, deferred tax and other real estate	–	–	–	–	2,169,463	2,169,463
Total assets	**17,641,872**	**32,580,251**	**59,396,377**	**50,696,467**	**17,833,610**	**178,148,577**

SAR '000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
2019						
Liabilities and shareholders' equity						
Due to banks and other financial institutions						
Current accounts	–	–	–	–	554,416	554,416
Money market deposits	914,118	903,606	–	–	–	1,817,724
Customers' deposits						
Demand	–	–	–	–	67,732,501	67,732,501
Saving	–	–	–	–	591,825	591,825
Time	34,801,540	11,955,428	12,597,826	–	124,144	59,478,938
Other	–	–	–	–	5,034,238	5,034,238
Negative fair value of derivatives						
Held for trading	50,122	398,735	2,005,851	601,463	–	3,056,171
Held as cash flow hedges	–	1,640	11,595	–	–	13,235
Other liabilities	–	290,344	938,973	449,399	5,244,095	6,922,811
Shareholders' equity	–	–	–	–	32,946,718	32,946,718
Total liabilities and shareholders' equity	**35,765,780**	**13,549,753**	**15,554,245**	**1,050,862**	**112,227,937**	**178,148,577**

Notes to the Consolidated Financial Statements continued

For the years ended December 31, 2019 and 2018

34. Liquidity Risk continued

a) Maturity analysis of assets and liabilities continued

SAR '000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
2018						
Assets						
Cash and balances with SAMA						
Cash in hand	–	–	–	–	1,004,106	1,004,106
Balances with SAMA	11,755,000	–	–	–	8,166,754	19,921,754
Due from banks and other financial institutions						
Current account	–	–	–	–	6,168,616	6,168,616
Money market placements	8,520,036	1,249,877	–	–	–	9,769,913
Investments, net						
Held as FVTPL	59,415	206,156	72,574	18,603	–	356,748
Held as FVOCI	41,661	436,622	1,720,940	3,307,150	135,133	5,641,506
Held at amortised cost	1,215,808	1,206,323	17,181,637	2,769,958	–	22,373,726
Investment in associates	–	–	–	–	9,695	9,695
Positive fair value of derivatives						
Held for trading	67,984	138,840	1,081,438	184,878	–	1,473,140
Held as cash flow hedges	137,947	34,246	287,131	–	–	459,324
Loans and advances, net						
Credit cards and consumer loans	89	412,401	8,616,525	3,937,346	495,861	13,462,222
Over draft and commercial loans	14,237,291	22,855,962	37,762,706	26,800,419	5,513,034	107,169,412
Property and equipment, net	–	–	–	–	690,369	690,369
Other assets, deferred tax and other real estate	–	–	–	–	1,749,746	1,749,746
Total assets	36,035,231	26,540,427	66,722,951	37,018,354	23,933,314	190,250,277

SAR '000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
2018						
Liabilities and shareholders' equity						
Due to banks and other financial institutions						
Current accounts	–	–	–	–	251,940	251,940
Money market deposits	1,362,541	531,000	–	–	–	1,893,541
Customers' deposits						
Demand	–	–	–	–	67,792,228	67,792,228
Saving	–	–	–	–	547,702	547,702
Time	43,479,102	20,089,283	11,967,914	–	145,879	75,682,178
Other	–	–	–	–	4,345,896	4,345,896
Negative fair value of derivatives						
Held for trading	75,357	82,583	988,656	156,608	–	1,303,204
Held as cash flow hedges	–	20,434	90,490	–	–	110,924
Debt securities and sukuks	3,340	–	–	2,000,000	–	2,003,340
Other liabilities	302,134	241,707	966,828	–	3,946,705	5,457,374
Shareholders' equity	–	–	–	–	30,861,950	30,861,950
Total liabilities and shareholders' equity	45,222,474	20,965,007	14,013,888	2,156,608	107,892,300	190,250,277

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, balances with SAMA, items in the course of collection, loans and advances to banks, and loans and advances to customers. The cumulative maturities of commitments & contingencies are given in note 19 (i) of the financial statements.

b) Analysis of financial liabilities by remaining undiscounted contractual maturities

The following table summarises the maturity profile of the Bank's financial liabilities as at December 31, 2019 and 2018 based on contractual undiscounted repayment obligations. As special commission payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the reporting date to the contractual maturity date and do not take into account the effective expected maturities. The Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

SAR '000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
2019						
Due to banks and other financial institutions						
Current accounts	**–**	**–**	**–**	**–**	**554,416**	**554,416**
Money market deposits	**912,713**	**916,645**	**–**	**–**	**–**	**1,829,358**
Customers' deposits						
Demand	**–**	**–**	**–**	**–**	**67,732,501**	**67,732,501**
Saving	**–**	**–**	**–**	**–**	**591,825**	**591,825**
Time	**34,510,522**	**12,232,529**	**12,740,299**	**–**	**124,144**	**59,607,494**
Other	**–**	**–**	**–**	**–**	**5,034,238**	**5,034,238**
Debt securities and Sukuks	**–**	**–**	**–**	**–**	**–**	**–**
Total	**35,423,235**	**13,149,174**	**12,740,299**	**–**	**74,037,124**	**135,349,832**
2018						
Due to banks and other financial institutions						
Current accounts	–	–	–	–	251,940	251,940
Money market deposits	1,362,131	546,063	–	–	–	1,908,194
Customers' deposits						
Demand	–	–	–	–	67,792,228	67,792,228
Saving	–	–	8,137	–	539,565	547,702
Time	43,189,003	20,359,361	12,500,057	–	145,879	76,194,300
Other	–	–	–	–	4,345,896	4,345,896
Debt securities and Sukuks	21,468	–	–	2,000,000	–	2,021,468
Total	44,572,602	20,905,424	12,508,194	2,000,000	73,075,508	153,061,728

35. Fair values of financial assets and liabilities

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

- in the accessible principal market for the asset or liability, or
- in the absence of a principal market, in the most advantages accessible market for the asset or liability

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

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Valuation models

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices and foreign currency exchange rates.

The objective of the valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The Bank uses widely recognised valuation models for determining the fair value of common and simpler financial instruments.

Notes to the Consolidated Financial Statements continued

For the years ended December 31, 2019 and 2018

35. Fair values of financial assets and liabilities continued

Valuation models continued

Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Valuation models that employ significant unobservable inputs require a higher degree of management judgment and estimation in the determination of fair value. Management judgment and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of the probability of counterparty default and prepayments and selection of appropriate discount rates. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Bank believes that a third party market participant would take them into account in pricing a transaction. Fair values aims also to reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty where appropriate.

Valuation Framework

The Bank has an established control framework with respect to the measurement of fair values. This framework includes a Market Risk Department, which is independent of Front Office management and reports to the Chief Risk Officer, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:

- verification of observable pricing;
- re-performance of model valuations;
- a review and approval process for new models and changes to models involving Risk Division;
- back-testing of models against observed market transactions and analysis and investigation of significant daily valuation movements

When third party information, such as broker quotes or pricing services, is used to measure fair value, Market Risk Department assesses and documents the evidence obtained from third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes:

- verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of financial instrument;
- understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement; and
- if a number of quotes for the same financial instrument have been obtained, then how fair value has been determined using those quotes

Any significant valuation issue is reported at a regular frequency (in addition to whenever deemed necessary) to the Banks Market Risk Committee in order to take appropriate actions accordingly.

Determination of fair value and fair value hierarchy

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

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

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

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

SAR '000	Level 1	Level 2	Level 3	Total
2019				
Financial assets				
Derivative financial instruments	**–**	**4,606,551**	**–**	**4,606,551**
Financial investments designated at FVTPL				
–Fixed rate securities	**20,218**	**–**	**–**	**20,218**
–Floating rate securities	**–**	**55,194**	**–**	**55,194**
Total	**20,218**	**55,194**	**–**	**75,412**
Financial investments at FVOCI				
–Fixed rate securities	**5,620,995**	**–**	**–**	**5,620,995**
–Floating rate securities	**–**	**3,520,214**	**–**	**3,520,214**
–Equity	**78,120**	**34,602**	**6,984**	**119,706**
–Others	**–**	**–**	**–**	**–**
Total	**5,699,115**	**3,554,816**	**6,984**	**9,260,915**
Total	**5,719,333**	**8,216,561**	**6,984**	**13,942,878**
Financial Liabilities				
Derivative financial instruments negative fair value	**–**	**3,069,406**	**–**	**3,069,406**
Total	**–**	**3,069,406**	**–**	**3,069,406**
2018				
Financial assets				
Derivative financial instruments	–	1,932,464	–	1,932,464
Financial investments designated at FVTPL				
–Fixed rate securities	336,521	–	–	336,521
–Floating rate securities	–	20,227	–	20,227
Total	336,521	20,227	–	356,748
Financial investments at FVOCI				
–Fixed rate securities	1,384,171	75,455	–	1,459,626
–Floating rate securities	–	4,046,747	–	4,046,747
–Equity	84,140	37,729	6,303	128,172
–Others	–	6,280	681	6,961
Total	1,468,311	4,166,211	6,984	5,641,506
Total	1,804,832	6,118,902	6,984	7,930,718
Financial Liabilities				
Derivative financial instruments negative fair value	–	1,414,128	–	1,414,128

During the year there have been no transfers in between level 1, level 2 and level 3.

The following table shows a reconciliation from the beginning balances to the ending balances for the fair value measurements in Level 3 of the fair value hierarchy:

Financial investments classified as FVOCI

SAR '000	2019	2018
Balance at the beginning of the year	**6,984**	2,575,208
Reclassified to amortised cost	**–**	(2,534,783)
Transfer out of level 3	**–**	(33,243)
Disposal during the year	**–**	(161)
Change in the value	**–**	(37)
Balance at the end of the year	**6,984**	6,984

The fair values of on-statement of financial position financial instruments, except for loans and advances and financial instruments held at amortised cost are not significantly different from the carrying values included in the consolidated financial statements. The fair values of commission bearing customers' deposits, debt securities, due from and due to banks which are carried at amortised cost, are not significantly different from the carrying values included in the consolidated financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and due to the short duration of due from and due to banks. An active market for these instruments is not available and the Bank intends to realise the carrying value of these financial instruments through settlement with the counter party at the time of their respective maturities.

Notes to the Consolidated Financial Statements continued
For the years ended December 31, 2019 and 2018

35. Fair values of financial assets and liabilities continued

The estimated fair values of the investments held at amortised cost are based on quoted market prices when available or pricing models when used in case of bonds. Consequently, differences can arise between carrying values and fair value estimates. The fair values of derivatives are based on the quoted market prices when available or by using the appropriate valuation technique.

Derivative products valued using a valuation technique with market observable inputs are mainly commission rate swaps and options, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including foreign exchange spot and forward rates and commission rate curves. Other investments in level 2 are valued based on market observable date including broker rates etc.

The fair values of investments held at amortised cost are SAR 22,154 million (2018: 22,085 million) against carrying value of SAR 22,117 million (2018: 22,374 million).

The Bank uses the discounted cash flow method using current yield curve to arrive at the fair value of loans and advances (level 3 instruments) after adjusting internal credit spread which is SAR 129,161 million (2018: SAR 122,432 million). The carrying values of those loans and advances are SAR 125,725 million (2018: SAR 120,632 million).

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

36. Related party transactions and balances

In the ordinary course of its activities, the Bank transacts business with related parties. In the opinion of the management and the Board, the related party transactions are carried out on an arm's length basis. The related party transactions are governed by limits set by the Banking Control Law and Regulations issued by SAMA.

The balances as at December 31, 2019 and 2018 resulting from such transactions included in the consolidated financial statements are as follows:

SAR '000	2019	2018
Associates		
Investments	**9,695**	9,695
Due to banks and other financial institutions	**-**	7,983
Directors, auditors, senior management and major shareholders' and their affiliates		
Loans and advances	**11,975,396**	7,347,118
Investments	**430,870**	178,140
Due from banks and other financial institutions	**500,000**	1,421,019
Other assets	**7**	–
Customers' deposits	**8,416,294**	10,715,976
Due to banks and other financial institutions	**8,017**	22,883
Other liabilities	**9,096**	–
Derivatives at fair value, net	**47,457**	80,129
Commitments and contingencies	**3,998,308**	2,408,784
Bank's mutual funds		
Derivatives at fair value, net	**(833)**	–
Customers' deposits	**6,042,214**	5,741,676

Income and expenses pertaining to transactions with related parties included in the consolidated financial statements are as follows:

SAR '000	2019	2018
Special commission income		
– Directors, auditors, senior management and major shareholders' and their affiliates	**617,739**	297,656
– Bank's mutual funds	**4**	12
Total Special commission income	**617,743**	297,668
Special commission expense		
– Directors, auditors, senior management and major shareholders' and their affiliates	**360,012**	278,755
– Associates	**187**	100
– Bank's mutual funds	**1,569**	5,403
Total Special commission expense	**361,768**	284,258
Fees, commission income and others, net	**(52,718)**	(71,395)
Directors' fees	**9,141**	5,174
Other general and administrative expenses	**93,438**	84,619

The total amount of salaries and employee related benefits to senior management personnel are as follows:

SAR '000	2019	2018
Short term benefit	**62,971**	58,376
Long term benefit (deferral bonus)	**9,786**	9,846
Long term incentive plan	**16,376**	14,893
Termination benefit	**1,031**	7,845
Total	**90,164**	90,960

The senior management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

37. Treasury Shares

The Bank acquired treasury shares as authorised by the Board under its Long Term Incentive (LTI) plan which will grant the appreciation award of the Banks share performance to eligible employees as per LTI plan. The eligible employees will benefit from the appreciation in value of the Bank shares over the vesting period. The LTI plan has been commenced on grant date. The Bank has offered eligible employees the option for equity ownership opportunities.

The significant features of these plans are as follows:

Nature of Plan	Long Term Incentive Plan	Long Term Incentive Plan	Long Term Incentive Plan
Number of outstanding plan	1	1	1
Grant date	02 July 2017	15 May 2018	31 March 2019
Maturity date	01 January 2019	01 January 2021	01 April 2022
Grant price-SAR	23.096	23.096	35.95
Vesting period	1.5 years	2.6 years	3 years
Vesting conditions	Employees remain in service and meets required service criteria	Employees remain in service and meets required service criteria	Employees remain in service and meets required service criteria
Method of settlement	Appreciation in equity	Appreciation in equity	Equity
Valuation model	Black-Sholes	Black-Sholes	Black-Sholes
Fair value per share on grant date-SAR	31.836	33.906	42.37

The share performance will be granted under a service condition along with market condition associated with them.
The total amount of expense recognised in these consolidated financial statements in respect of the above plans for the year is SAR 16.4 million (2018: SAR 14.9 million).

	2019
Number of shares allocated for LTI calculation at the beginning of the year	**4,130,000**
Vested during the year	**(3,130,000)**
Allocated during the year, net	**1,151,655**
Number of shares allocated for LTI calculation at the year end	**2,151,655**

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For the years ended December 31, 2019 and 2018

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

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management. SAMA requires holding the minimum level of the regulatory capital and maintaining a ratio of total regulatory capital to the risk-weighted asset (RWA) at or above the agreed minimum level.

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

SAMA has issued the framework and guidance regarding implementation of the capital reforms under Basel III – which are effective from January 1, 2013. Accordingly, the Group's consolidated Risk Weighted Assets (RWA), total capital and related ratios on a consolidated basis, calculated under the Basel III framework.

The RWAs, total capital and related ratios as at December 31, 2019 and 2018 are calculated using the framework and the methodologies defined under the Basel III framework.

SAR '000	2019	2018
Credit Risk RWA	**163,698,148**	165,236,811
Operational Risk RWA	**12,701,788**	12,481,250
Market Risk RWA	**2,164,647**	1,863,538
Total RWA	**178,564,583**	179,581,599
Tier I Capital	**32,720,359**	31,811,197
Tier II Capital	**1,568,513**	3,685,383
Total Tier I & II Capital	**34,288,872**	35,496,580
Capital Adequacy Ratio %		
Tier I ratio	**18.32%**	17.71%
Tier I + Tier II ratio	**19.20%**	19.77%

39. Investment management, brokerage and corporate finance services
The Bank offers investment services to its customers through its subsidiary, which include management of certain investment funds in consultation with professional investment advisors as well as brokerage services. Income from the subsidiaries is included in the consolidated statement of income under fees and commission income, net. Determining whether the Bank controls such an investment fund usually depends on the assessment of the aggregate economic interests of the Bank in the Fund (comprising of its investments, any carried profit and expected management fees) and the investors' rights to remove the Fund Manager.

As a result of the above assessment, the Bank has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated these funds. However, the Bank's share of these funds is included in the FVOCI investments and fees earned are disclosed under related party transactions.

The value of the mutual funds and other private investment portfolio managed by the Bank through its subsidiary was SAR 2,914 million (2018: SAR 3,522 million). The Bank through its subsidiary offers Islamic investment management services to its customers, which include management of certain investment funds in consultation with professional investment advisors, having net asset value of SAR 2,028 million (2018: SAR 2,358 million).

40. Comparative figures
Certain prior period figures have been reclassified to conform to the current period's presentation.

41. Board of Directors approval
The consolidated financial statements were approved by the Board of Directors on 31 January, 2020 corresponding to 06 Jumada Al Aakhir 1441H.

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