مصرف الراجحي
alrajhi bank

Al Rajhi Banking and Investment Corporation

(Incorporated under commercial registration no. 1010000096, converted into a joint stock company pursuant to Royal Decree No. M/59 dated 3/11/1407H (corresponding to 29/06/1987G), with a paid-up capital of SAR 40,000,000,000 and 4,000,000,000 total outstanding shares)

Additional Tier 1 Capital Sukuk Programme

Under the additional tier 1 capital sukuk issuance programme described in this Base Prospectus (the "**Programme**"), Al Rajhi Banking and Investment Corporation (the "**Issuer**" or the "**Bank**"), subject to compliance with all applicable laws, regulations and directives, may from time to time issue additional tier 1 capital sukuk (the "**Sukuk**").

The Issuer was incorporated under Commercial Registration no. 1010000096 on 25/10/1376H (corresponding to 25/05/1957G) and converted into a joint stock company under the Royal Decree No. M/59 dated 3/11/1407H (corresponding to 29/06/1987G) with a paid-up capital of SAR 40,000,000,000 and 4,000,000,000 total outstanding shares, having its registered head office at 8467 King Fahd Road, Al Muruj District, Riyadh 12263 – 2743, Kingdom of Saudi Arabia.

The Issuer's shares were listed on Tadawul (as defined below) on 01/12/1988G. The Issuer currently has 4,000,000,000 shares listed on Tadawul. Prior to the establishment of the Programme, the Issuer had no debt instruments listed on Tadawul. On 8 May 2022, it was resolved to increase the share capital of the Issuer to SAR 40,000,000,000 through the grant of 1,500,000,000 additional shares.

Each Series (as defined in the Conditions) issued under the Programme will be the subject of, inter alia, a master declaration of agency (the "**Master Declaration of Agency**") dated 20 October 2022 between the Issuer and Al Rajhi Capital Company (in its capacity as agent on behalf of the Sukukholders (as defined below), the "**Sukukholders' Agent**", which expression includes any successor Sukukholders' Agent in relation to the Sukuk), as supplemented by a supplemental declaration of agency between the same parties in relation to each Tranche (as defined in the Conditions) of such Series (each a "**Supplemental Declaration of Agency**" and together with the Master Declaration of Agency, each a "**Declaration of Agency**"), and a payment administration agreement (the "**Payment Administration Agreement**") dated 20 October 2022 between the Issuer, the Sukukholders' Agent and Al Rajhi Capital Company (in its capacity as payment administrator, the "**Payment Administrator**"). Sukuk of each Series confer on the holders thereof from time to time (the "**Sukukholders**") the right to receive certain payments (as more particularly described herein) arising from the Sukuk Assets (as defined in the Conditions) in relation to the relevant Series.

Sukuk may only be issued in registered form subject to, and in accordance with, the terms and conditions of the Sukuk (the "**Conditions**" and, any reference herein to a numbered Condition is to the corresponding numbered provision thereof). The aggregate nominal amount of the Sukuk from time to time as are outstanding under the Programme will not exceed SAR 10,000,000,000 subject to increase in accordance with the Programme Agreement (as defined herein) and all applicable rules and regulations of the Kingdom.

Each Series of Sukuk will constitute direct, unsecured, unconditional and subordinated instruments with no fixed maturity date. The Sukuk are redeemable at the Issuer's option: (i) if Condition 9.1(b)(ii) is marked as "applicable" in the Applicable Final Terms, on any date during the period commencing (and including) the relevant First Call Date to (and including) the relevant First Reset Date or on any relevant Periodic Distribution Date thereafter (each as defined in the Conditions); or (ii) if Condition 9.1(b)(iii) is marked as "applicable" in the Applicable Final Terms, on the First Call Date or on any relevant Periodic Distribution Date thereafter. In addition (on any date on or after the relevant Issue Date (whether or not a Periodic Distribution Date)), upon the occurrence of a Tax Event or a Capital Event (each as defined in the Conditions), all, but not some only, of the Sukuk of the relevant Series may be redeemed in accordance with Conditions 9.1(c) (Redemption due to Taxation) and 9.1(d) (Redemption for Capital Event). In all cases, any redemption of Sukuk is subject to the conditions described in Condition 9.1(a) (Redemption). For the Initial Period, each Series of Sukuk shall bear profit at the relevant Initial Periodic Distribution Rate (as defined in the Conditions). The relevant Profit Rate (as defined in the Conditions) will then be reset on each relevant Reset Date on the basis of the aggregate of the relevant Margin and the Relevant Reset Rate on the relevant Determination Date, as determined by the Payment Administrator (each as defined in the Conditions).

Each offer period for the relevant Tranche of the Sukuk will be specified in the Applicable Final Terms (as defined below) (each, an "**Offer Period**") and the relevant Tranche of Sukuk will be allocated after the end of the applicable Offer Period and issued on a date (each, an "**Issue Date**") notified by the Issuer and the Sole Arranger and Dealers to the relevant potential investors after the end of the relevant Offer Period. For further details, see the section entitled "Subscription and Sale".

The Sukuk may be issued on a continuing basis to one or more dealers (each a "**Dealer**" and together the "**Dealers**") and any additional Dealer appointed under the Programme from time to time by the Issuer, which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the relevant Dealer shall, in the case of an issue of Sukuk being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe (or procure the subscription of) such Sukuk.

The Sukuk will be offered to eligible natural persons and legal persons in the Kingdom of Saudi Arabia (the "**Kingdom**") and any other jurisdiction, where it is lawful to offer the Sukuk. Persons wishing to purchase the Sukuk of the relevant Series will be required to submit a duly completed form (an "**Investor Application Form**") to the relevant Dealer(s) in the case of legal persons, or to the receiving banks ("**Receiving Banks**") in the case of natural persons, prior to the date of completion of the offering process and shall make payment for the Sukuk of such Series as per the instructions contained in the Investor Application Form. Investor Application Forms will be available from the relevant Dealer(s), or from the Receiving Bank, as applicable, in respect of such Series.

The Issuer shall not pay any additional amounts in respect of any withholding required by law to any person who holds Sukuk but is not a Qualified Person. See Condition 12 (Taxation).

Notice of the aggregate nominal amount of the Sukuk and any other terms and conditions not contained herein which are applicable to each Tranche will be set out in a final terms document applicable to such Tranche (the "**Applicable Final Terms**"). The minimum number of each Series of Sukuk to be subscribed for is 5 Sak, in value of SAR 5,000, of each Series of Sukuk to be issued under the Programme, unless otherwise specified in the Applicable Final Terms, and the maximum number of Sukuk and maximum value of Sukuk to be subscribed for of each Series of Sukuk to be issued under the Programme will be specified in the Applicable Final Terms.

The Issuer may agree with any Dealer that Sukuk may be issued with terms and conditions not contemplated by the Conditions, in which event a supplemental Base Prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Sukuk.

This Base Prospectus should be read and construed together with any amendments or supplements hereto and, in relation to any Tranche, should be read and construed together with the Applicable Final Terms.

The Issuer has submitted an application for the registration and offer of the Sukuk to the Authority, and to the Saudi Arabian Stock Exchange ("**Tadawul**") for the listing of the Sukuk. This Base Prospectus has been approved and all required documents have been submitted to the relevant authorities. All regulatory requirements have been satisfied and all required corporate approvals have been obtained.

This Base Prospectus includes information provided as part of the application for registration and offer of securities in compliance with the Rules on the Offer of Securities and Continuing Obligations issued by the Authority pursuant to its Resolution no. 3-123-2017 dated 9/4/1439H (corresponding to 27/12/2017G) as amended by its Resolution no. 1-94-2022 dated 24/1/1444H (corresponding to 22/08/2022G) and the application for listing of securities in compliance with the Listing Rules of Tadawul. The board of directors, whose names appear on pages 101 of this Base Prospectus, collectively and individually accept full responsibility for the accuracy of the information contained in this Base Prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading. The Authority and Tadawul do not take any responsibility for the contents of this Base Prospectus, do not make any representation as to its accuracy or completeness, and expressly disclaim any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Base Prospectus.

Prospective investors of the Sukuk offered hereby should conduct their own due diligence on the accuracy of the information relating to the securities. If you do not understand the contents of this document, you should consult an authorised financial adviser.

The Securities Depository Center Company ("**Edaa**") will be appointed as registrar (the "**Registrar**", which expression includes any successor registrar) of the Sukuk issued under the Programme (as described in the Conditions and the "**Subscription and Sale**" section of this Base Prospectus, respectively). The Sukuk will be in registered form in Specified Denominations of SAR 1,000 and the aggregate nominal value of each Tranche will be outlined in the Applicable Final Terms. The Sukuk will be collectively represented at all times by interests in a registered form global sak, without coupons attached (the "**Global Sak**"), which will be deposited as the Sukukholders' Agent may direct in accordance with the provisions of the Master Declaration of Agency. The Sukuk may only be held in book entry dematerialised form and definitive sukuk will not be issued to Sukukholders in relation to their holdings of Sukuk.

An investment in the Sukuk issued under the Programme involves certain risks and uncertainties. For a discussion of certain factors to be considered before determining whether to invest in the Sukuk issued under the Programme, see the "Risk Factors" and "Important Notice" sections of this Base Prospectus. In particular, investors should review and consider the risk factors relating to a Write-down (as defined in the Conditions) and the impact this will have on their investment.

The Saudi Central Bank ("**SAMA**") does not make any representation as to the accuracy or completeness of this Base Prospectus, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Base Prospectus. In particular, prospective purchasers of the Sukuk agree and acknowledge that SAMA assumes no liability whatsoever to any purchaser of the Sukuk for any loss arising from, or incurred, as a result of, the occurrence of a Non-Viability Event (as defined in the Conditions). If you do not understand the contents of this Base Prospectus, you should consult an authorised financial adviser. See "**Risk Factors – Risks relating to the Sukuk – The circumstances triggering a Write-down are unpredictable**" and "**Risk Factors – Risks relating to the Sukuk – Sukukholders' right to receive payment of the nominal amount of the Sukuk and their right to any profit will be permanently cancelled or permanently Written- down (in whole or in part) upon the occurrence of a Non-Viability Event**".

The Issuer's long-term corporate ratings are "BBB+" with a positive outlook from S&P Global Ratings ("**S&P**"), "A-" with a stable outlook from Fitch Ratings ("**Fitch**"), "A1" with a stable outlook from Moody's Investors Service ("**Moody's**") and "A+" with a stable outlook from Capital Intelligence. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Where a Series of Sukuk is rated, such rating will be specified in the Applicable Final Terms. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Any Sukuk to be issued under the Programme may only be offered and sold in the Kingdom in accordance with the Rules on the Offer of Securities and Continuing Obligations.

The distribution of this Base Prospectus and the offering, sale and delivery of Sukuk issued under the Programme in any jurisdiction other than the Kingdom may be restricted by law. Any Persons who come into possession of this Base Prospectus are required by the Issuer, Al Rajhi Capital Company (the "**Sole Arranger**") and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Sukuk issued under the Programme and on distribution of this Base Prospectus and other offering material relating to Sukuk issued under the Programme, see the "**Subscription and Sale**" section of this Base Prospectus.

The transaction structure relating to the Sukuk (as described in this Base Prospectus) has been approved by members of Al Rajhi Capital Company's Shari'a Committee (the "**Shari'a Committee**"). Prospective Sukukholders should not rely on such approval in deciding whether to make an investment in the Sukuk and should consult their own Shari'a advisers as to whether the proposed transaction described in such approvals is in compliance with their individual standards of compliance with Shari'a principles. None of the Issuer, the Sole Arranger, the Dealers, the Sukukholders' Agent and the Payment Administrator makes any representation as to the Shari'a compliance of the Sukuk and/or any trading thereof.

Financial Advisor, Sole Arranger and Dealer

الراجحي المالية
Al Rajhi Capital

This Base Prospectus is dated 20 October 2022


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alrajhi bank

IMPORTANT NOTICE

This Base Prospectus provides certain information relating to the Issuer and the Sukuk being offered. This Base Prospectus does not constitute an offer to sell or a solicitation of an offer to buy the Sukuk by any person in any jurisdiction where it is unlawful to make such an offer or solicitation. The distribution of this Base Prospectus and the offer or sale of the Sukuk in certain jurisdictions is restricted by law. This Base Prospectus may not be used for, or in connection with, and does not constitute, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstance in which such offer or solicitation is not authorised or is unlawful.

This Base Prospectus contains details and sufficient information related to the Issuer and Sukuk. This Base Prospectus can be obtained by visiting the Issuer's website (https://www.alrajhibank.com.sa), the Authority's website (www.cma.org.sa), Tadawul's website (www.saudiexchange.sa) or the website of the financial advisor, the Sole Arranger and the Dealer (https://alrajhi-capital.sa).

No person is or has been authorised to give any information or to make any representation about the Issuer, the Programme or the Sukuk (other than as contained in this Base Prospectus) and, if given or made, any such other information or representation should not be relied upon as having been made or authorised by the Issuer, the Sole Arranger and the Dealers. Neither the publication and/or delivery of this Base Prospectus nor any sale of any Sukuk shall, under any circumstances, constitute a representation or create any implication that the information contained herein is correct as of any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Sole Arranger, the Dealers, the Sukukholders' Agent and the Payment Administrator expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Sukuk of any information coming to their attention.

Save for the information contained in the Pronouncement appended to this Base Prospectus on page 186, the Issuer accepts full responsibility for the accuracy of the information contained in this Base Prospectus and the Applicable Final Terms and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief, the information contained in this Base Prospectus is in accordance with the facts and there are no other facts, the omission of which would make any statement herein misleading. The Authority and Tadawul do not take any responsibility for the contents of this Base Prospectus, do not make any representation as to its accuracy or completeness, and expressly disclaim any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Base Prospectus.

SAMA does not make any representation as to the accuracy or completeness of this Base Prospectus, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Base Prospectus. In particular, prospective psers of the Sukuk agree and acknowledge that SAMA assumes no liability whatsoever to any purchaser of the Sukuk for any loss arising from, or incurred, as a result of, the occurrence of a Non-Viability Event. If you do not understand the contents of this Base Prospectus, you should consult an authorised financial adviser.

While the Issuer has made all reasonable enquiries as to the accuracy of the information contained in this Base Prospectus as at the date hereof, substantial portions of the market and industry information herein are derived from external sources, and while neither the Issuer, the Sole Arranger, the Dealers nor their respective advisers have any reason to believe that any of the market and industry information is materially inaccurate, such information has not been independently verified and no representation is made with respect to the accuracy or completeness of any of this information.

The information contained in this Base Prospectus is subject to change. In particular, the actual financial state of the Issuer and the value of the Sukuk may be adversely affected by future developments in inflation, financing charges, taxation, calculation of zakat or other economic, political and other factors, over which the Issuer has no control , see "*Risk Factors*". The Issuer does not intend to update or otherwise revise any information or forward-looking statements in this Base Prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Base Prospectus might not occur in the way they are expected, or at all. Prospective investors should consider all forward-looking statements in light of these explanations and should not place undue reliance on forward looking statements.

Neither the publication and/or delivery of this Base Prospectus nor any oral, written or printed interaction in relation to the Sukuk is intended to be or should be construed as or relied upon in any way as, a promise or representation as to future earnings, results or events.

This Base Prospectus should be read and construed together with the Applicable Final Terms.

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Sukuk issued under the Programme: (a) is intended to provide the basis of any credit or other evaluation; or (b) should be considered as a recommendation on the part of the Issuer, the Sole Arranger, the Dealers, the Sukukholders' Agent, the Payment Administrator or any of their advisers or affiliates that any recipient of this Base Prospectus should participate in the offering of any Sukuk issued under the Programme. Information provided herein is of a general nature and has been prepared without taking into account any prospective investor's investment objectives, financial situation or particular investment needs. Prior to making an investment decision, each recipient of this Base Prospectus and any other information supplied in connection with the Programme or the issue of any Sukuk issued under the Programme is responsible for obtaining their own independent professional advice from a financial adviser licensed by the Authority in relation to the Issuer and the offering of the relevant Sukuk and for making their own independent investigation, evaluation and appraisal of the financial condition and affairs, as well as the creditworthiness, of the Issuer, an investment in the relevant Sukuk and of the information and assumptions contained herein, using such advice, analysis and projections as they deem necessary in making any investment decision. None of the Sole Arranger, the Dealers, the Sukukholders' Agent or the Payment Administrator accepts any liability in relation to the information contained in this Base Prospectus or any other information provided by the Issuer in connection with the Programme or for any other statement made or purported to be made by the Sole Arranger, a Dealer, the Sukukholders' Agent or the Payment Administrator or on its behalf in connection with the Issuer, the Programme or the issuance and offering of the Sukuk.

None of the Issuer, the Sole Arranger, the Dealers, the Sukukholders' Agent or the Payment Administrator makes any representation to any investor in the Sukuk regarding the legality of its investment under any applicable laws. Any investor in the Sukuk should be able to bear the economic risk of an investment in the Sukuk for an indefinite period of time.

1. Prospective investors should note that the Issuer shall not pay any additional amounts in respect of any withholding required by law to any person who holds Sukuk who is not a "Qualified Person". A "**Qualified Person**" means:

(a) a natural person who is considered to be resident in the Kingdom in accordance with the Income Tax Law issued by a Royal Decree no. M/1 dated 15/1/1425H (as amended) and the implementing regulations thereof (the "**Income Tax Law**"); or

(b) a legal person who is considered to be resident in the Kingdom in accordance with the Income Tax Law and who is holding a current commercial registration number issued by the Ministry of Commerce. However, the requirement for such legal person to hold a current commercial registration number issued by the Ministry of Commerce would not apply to Saudi Arabian governmental entities and mutual funds established in the Kingdom and managed by a person authorised by the Authority or any other entity established in the Kingdom that is not required by the laws of the Kingdom to hold a commercial registration,

If the prospective investor received this document by e-mail, they should not reply by e-mail to this document. Any reply e-mail communications, including those generated by using the "Reply" function on the prospective investor's e-mail software, will be ignored or rejected. If the prospective investor receives this document by e-mail, their use of that e-mail will be at their own risk, and it is their responsibility to take precautions to ensure that it is free from viruses and any other similar items of a destructive nature.

If this Base Prospectus has been sent to a prospective investor in an electronic form, they must be aware that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, the Sole Arranger, the Dealers, the Sukukholders' Agent, the Payment Administrator or any person who controls or is a director, officer, employee or agent of any of the Issuer, the Sole Arranger, the Dealers, the Sukukholders' Agent, the Payment Administrator or any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between this Base Prospectus distributed to prospective investors in electronic format and the copy made available on the official website of the Authority or the Issuer.

The information provided in this Base Prospectus is of a general nature and has been prepared without taking into account individual investment objectives, the financial situation or particular investment needs of the persons who intend to invest in the Sukuk. Prospective investors are not to construe the contents of this Base Prospectus as constituting tax, zakat, investment, legal, regulatory or Shari'a advice. Prior to purchasing any Sukuk, a prospective investor should consult with its own legal, financial, business, tax, zakat and Shari'a advisers to determine the appropriateness and consequences of an investment in the Sukuk for such investor and arrive at an independent evaluation and appraisal of such investment.

2. The Sukuk may not be a suitable investment for all investors. Each potential investor in Sukuk must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(a) have sufficient knowledge and experience to make a meaningful evaluation of the Sukuk, the merits and risks of investing in the Sukuk and the information contained, or incorporated by reference, in this Base Prospectus;

(b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Sukuk and the impact the Sukuk will have on its overall investment portfolio;

(c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Sukuk;

(d) understand thoroughly the terms of the Sukuk and be familiar with the behaviour of any relevant indices and financial markets; and

(e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, profit rate and other factors that may affect its investment and its ability to bear the applicable risks.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each prospective investor should consult its legal advisers to determine whether and to what extent: (i) the Sukuk are legal investments for it; (ii) the Sukuk can be used as collateral for various types of borrowing; and (iii) other restrictions apply to their purchase or pledge of any Sukuk. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Sukuk under any applicable risk-based capital or similar rules.

The Sukuk are complex financial instruments and are of high risk and are not a suitable or appropriate investment for all investors. See "*Risk Factors – Risks relating to the Sukuk – The circumstances triggering a Write-down are unpredictable*" *and "Risk Factors – Risks relating to the Sukuk – Sukukholders' right to receive payment of the nominal amount of the Sukuk and their right to any profit will be permanently cancelled or permanently Written-down (in whole or in part) upon the occurrence of a Non-Viability Event*". In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities similar to the Sukuk. There are risks inherent in holding of the Sukuk, including the risks in relation to their subordination and the circumstances in which holders of the Sukuk may suffer loss as a result of holding the Sukuk. See "*Risk Factors*" for a discussion of certain considerations to be taken into account in connection with an investment in the Sukuk. Institutional or qualified clients generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Sukuk unless it has the expertise (either alone or with a financial adviser) to evaluate how the Sukuk will perform under changing conditions, the resulting effects on the value of the Sukuk and the impact this investment will have on the potential investor's overall investment portfolio.

The Issuer reserves the right, to the maximum extent permitted by applicable laws and regulations, to terminate at any time any further participation by any party in the evaluation process and the offering of the Sukuk and/or reject all bids without any liability or responsibility. The Issuer shall have no obligation to inform any investor or bidder of the grounds of such termination or rejection. The cost and expenses incurred by any prospective investor or successful bidder (which includes, but is not limited to, cost of employing the services of financial, accounting, technical, legal and Shari'a advisers, travelling expenses, etc.) will be for their own account and neither the Issuer, the Sole Arranger, the Dealers, the Sukukholders' Agent nor the Payment Administrator in any way would be held responsible for any such cost, regardless of, without limitation, the conduct or outcome of the bidding, evaluation and selection process.

Industry and Market Data

In this Base Prospectus, information regarding the banking industry and other data regarding the market segment in which the Issuer operates has been obtained from: (i) the Issuer's estimates; and (ii) data and analysis on the banking industry, which were obtained from various publicly available third party sources and materials. Such information, sources, and estimates are believed to be reliable, but have not been independently verified by the Issuer, the directors of the Issuer whose names appear in the section entitled "**Management and Employees**" of this Base Prospectus or any of their respective advisers and no representation is made with respect to their accuracy or completeness.

Industry and market data is subject to change and cannot always be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any survey of market size. None of the publications, reports or other published industry sources referred to in this Base Prospectus were commissioned by the Issuer or prepared at its request and the Issuer has not sought or obtained the consent from any of these sources to include such market data in this Base Prospectus.

Supplementary Base Prospectus

If at any time during the duration of the Programme there is a significant new factor, material mistake or inaccuracy relating to information contained in this Base Prospectus which is capable of affecting the assessment of any Sukuk and whose inclusion in or removal from this Base Prospectus is necessary for the purpose of allowing an investor to make an informed assessment of the assets and liabilities, financial position, profits and losses (if applicable) and prospects of the Issuer and the rights attaching to the Sukuk, the Issuer shall prepare a supplement to this Base Prospectus or publish a replacement base prospectus for use in connection with any subsequent offering of the Sukuk and shall supply to the Sole Arranger and Dealers such number of copies of such supplement hereto as such Sole Arranger or Dealers may reasonably request.

NOTICE TO PROSPECTIVE INVESTORS

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Sukuk in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and the offer or sale of Sukuk may be restricted by law in certain jurisdictions. The Issuer, the Sole Arranger, the Dealers, the Sukukholders' Agent and the Payment Administrator require persons in possession of this Base Prospectus to inform themselves about and to observe all such legal or regulatory restrictions in this regard.

The Sukuk have not been nor will be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"), nor with any securities regulatory authority of any state or other jurisdiction of the United States and the Sukuk may not be offered or sold within the United States or to, or for the account or benefit of U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in accordance with all applicable securities laws of any state or other jurisdiction of the United States. Each purchaser of the Sukuk is hereby notified that the offer and sale of Sukuk to it is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Regulation S.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Historical financial statements

The historical financial statements relating to the Bank and its subsidiaries (collectively referred to as the "**Group**") and incorporated by reference in this Base Prospectus are:

- the unaudited interim condensed consolidated financial statements as at and for the six-month period ended 30 June 2022G (the "**Interim Financial Statements**");
- the audited consolidated financial statements as at and for the year ended 31 December 2021G (the "**2021G Financial Statements**"), which also include comparative financial information as at and for the year ended 31 December 2020;
- the audited consolidated financial statements as at and for the year ended 31 December 2020G (the "**2020G Financial Statements**", which also include comparative financial information as at and for the year ended 31 December 2019G, and
- the audited consolidated financial statements as at and for the year ended 31 December 2019G (the "2019G Financial Statements" and, together with the 2021G Financial Statements and the 2020G Financial Statements, the "**Annual Financial Statements**"),

The unaudited Interim Financial Statements, together with the audited Annual Financial Statements, the "**Financial Statements**".

The above Financial Statements incorporated by reference into this Base Prospectus are presented in Saudi Riyals.

The audited Financial Statements were prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("**IAS 34**") as endorsed in Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("**SOCPA**").

The audited Annual Financial Statements were prepared in accordance with: (i) International Financial Reporting Standards ("**IFRS**") that are endorsed in Saudi Arabia and other standards and pronouncements issued by SOCPA ("**IFRS-KSA**"); and (ii) in compliance with the provisions of the banking control law issued by Royal Decree No. M/5 dated 22/02/1386H (corresponding to 12 June 1966G) (the "**Banking Control Law**"), the Regulations for Companies in Saudi Arabia and Bylaws of the Bank (the "**Bylaws**").

The Bank's financial year ends on 31 December and references in this Base Prospectus to "**2019G**", "**2020G**" and "**2021G**" are to the 12-month period ending on 31 December in each such year.

Auditors and unaudited information

The unaudited Interim Financial Statements were jointly reviewed by KPMG Professional Services ("**KPMG**") and Ernst & Young Professional Services (Professional LLC) ("**EY**") in accordance with International Standard on Review Engagements 2410, *"Review of Interim Financial Information Performed by the Independent Auditor of the Entity"* that is endorsed in Saudi Arabia. KPMG and EY issued an unqualified review report on the unaudited Interim Financial Statements.

The audited Annual Financial Statements were jointly audited by KPMG and EY in accordance with International Standards on Auditing ("**ISAs**") that are endorsed in Saudi Arabia. KPMG and EY issued unqualified audit reports on the audited Annual Financial Statements.

All information in this Base Prospectus as at 30 June 2022G and for the six-month periods ended 30 June 2022G and 30 June 2021G is unaudited.

All financial information as at, and for the six-month period ended 30 June 2022G and for the six-month period ended 30 June 2021G appearing in this Base Prospectus has been derived from the unaudited Interim Financial Statements.

All financial information as at, and for the year ended, 31 December 2021G appearing in this Base Prospectus has been derived from the audited 2021G Financial Statements.

All financial information as at, and for the years ended, 31 December 2020G and 31 December 2019G appearing in this Base Prospectus has been derived from the audited 2020G Financial Statements.

Certain non-IFRS-KSA financial information

This Base Prospectus includes selected consolidated ratios which have not been prepared in accordance with IFRS-KSA and which also constitute alternative performance measures for the purposes of the European Securities and Markets Authority Guidelines on Alternative Performance Measures ("**APMs**"). None of this financial information is subject to any audit or review by independent auditors. These ratios include performance measures, financial ratios, asset quality measures and other ratios. See "*Selected financial information—Selected consolidated ratios*", which also explains the basis of calculation of each ratio.

The Group believes that the presentation of these ratios is helpful to investors because these and other similar measures are widely used by certain investors, security analysts and other interested parties as supplemental measures of performance and liquidity.

However, these ratios are not measures of financial performance under IFRS-KSA and should not be considered in isolation or as a substitute for operating profit, cash flow from operating activities or other financial measures of the Group's results of operations or liquidity computed in accordance with IFRS-KSA. Other companies, including those in the Group's industry, may calculate these ratios differently from the Group. As all companies do not calculate these ratios in the same manner, the Group's presentation of these ratios may not be comparable to other similarly titled measures of other companies.

Use of Dates

Dates are referred to in the Hijri ("**H**") calendar and the Gregorian ("**G**") calendar. Unless indicated to the contrary, all references to dates, "**year**" or "**years**" herein are to dates or years in the Gregorian calendar.

PRESENTATION OF OTHER INFORMATION

Currencies

Unless otherwise indicated, in this Base Prospectus, all references to:

- "**riyal**" and "**SAR**" are to the Saudi Arabian Riyal, the legal currency of Saudi Arabia;

- "**U.S. dollars**" and "**U.S.$**" are to United States Dollar, the legal currency of the United States.

Unless otherwise indicated, the financial information contained in this Base Prospectus has been expressed in riyal. The Group's functional currency is the riyal and the Group prepares its unaudited Interim Financial Statements and audited Annual Financial Statements in riyal, rounded to the nearest thousand.

Translations of amounts from riyal to U.S. dollars in this Base Prospectus are solely for the convenience of the reader. The riyal has been pegged to the U.S. dollar since 1986G at a fixed rate of SAR 3.75 = US$1.00 and, unless otherwise stated, all conversions of riyal amounts to U.S. dollar amounts in this Base Prospectus have been converted at this rate. No representation is made that Saudi Riyal amounts referred to could have been or could be converted into U.S. dollars at any particular rate on any date.

Third party and market share data

This Base Prospectus contains information regarding the Group's business and the industry in which it operates and competes, which the Group has obtained from third party sources. The Group and other institutions operating in the banking and financial services industry in Saudi Arabia make available a wide range of financial and operational information to regulatory and market bodies, including SAMA and the Authority. These bodies use certain of the data supplied to publish statistical information, amongst other matters. However, no assurance can be made that the information reported to these bodies by different market participants is, in all cases, directly comparable. Where third party information has been used in this Base Prospectus, it has been accurately reproduced and the source of such information has been identified.

In some cases, independently determined industry data is not available. In these cases, any Group market share data included in this Base Prospectus is referred to as having been estimated. All such estimates have been made by the Group using its own information and other market information which is publicly available. The Bank believes that these estimates of market share are helpful as they give prospective investors a better understanding of the industry in which the Group operates as well as its position within that industry. Although all such estimations have been made in good faith based on the information available and the Group's knowledge of the market within which it operates, the Bank cannot guarantee that a third party expert using different methods would reach the same conclusions.

Statistical information relating to Saudi Arabia included in this Base Prospectus has been derived from official public sources, including the General Authority for Statistics ("**GASTAT**"), SAMA, the Ministry of Finance, the Ministry of Economy and Planning, the International Monetary Fund (the "**IMF**") and the Organisation for Petroleum Exporting Countries ("**OPEC**"). All such statistical information may differ from that stated in other sources for a variety of reasons, including the use of different definitions and cut-off times. This data may subsequently be revised as new data becomes available and any such revised data will not be circulated by the Group to investors who have purchased Sukuk issued under the Programme.

Where information has not been independently sourced, it is the Group's own information.

No incorporation of website information

The Bank's website is https://www.alrajhibank.com.sa. The information on this website or any other website mentioned in this Base Prospectus or any website directly or indirectly linked to these websites has not been verified and is not incorporated by reference into this Base Prospectus, and investors should not rely on it.

Definitions

In this Base Prospectus, references to:

- a "**billion**" are to a thousand million;
- the "**GCC**" are to the Gulf Cooperation Council (comprising the Kingdom of Bahrain, Kuwait, the Sultanate of Oman, the State of Qatar, Saudi Arabia and the UAE);
- "**Government**" are to the government of Saudi Arabia;
- "**Jordan**" are to the Hashemite Kingdom of Jordan;
- the "**MENA region**" are to the Middle East and North Africa region;
- "**Kuwait**" are to the State of Kuwait;
- "**Saudi Arabia**" or the "**Kingdom**" are to the Kingdom of Saudi Arabia; and
- the "**UAE**" are to the United Arab Emirates.

In this Base Prospectus, unless the contrary intention appears, a reference to a law or a provision of a law is a reference to that law or provision as extended, amended or re-enacted.

References herein to "**this Base Prospectus**" shall be deemed to include this document dated 20 October 2022G, together with supplements thereto, if any.

Rounding

The unaudited Interim Financial Statements and the audited Annual Financial Statements present the Group's results in thousands of riyal. Certain financial data in this Base Prospectus has been rounded to the nearest million, with 500,000 being rounded up and 499,999 being rounded down, or billion, with 500 million being rounded up and 499 million being rounded down. As a result of such rounding, the totals of financial statement data presented in tables in this Base Prospectus may vary slightly from the arithmetic totals of such data. Where used in tables, the figure "**0**" means that the data for the relevant item has been rounded to zero and the symbol "**—**" means that there is no data in respect of the relevant item.

In addition, all percentage data in this Base Prospectus has been rounded to one decimal place, with 0.050 being rounded up and 0.049 being rounded down.

FORECASTS AND FORWARD-LOOKING STATEMENTS

Forecasts set forth in this Base Prospectus have been prepared on the basis of assumptions based on the Bank's information as derived from its market experience, as well as on publicly available market information. Future operating conditions may differ from the assumptions used and consequently no representation or warranty is made with respect to the accuracy or completeness of any of these forecasts.

Some statements in this Base Prospectus may be deemed to be forward-looking statements. The words "anticipate", "believe", "expect", "plan", "intend", "targets", "aims", "seeks", "estimate", "project", "will", "would", "may", "could", "continue", "should" and similar expressions are intended to identify forward-looking statements. All statements other than statements of historical fact included in this Base Prospectus, including, without limitation, those regarding the financial position of the Bank, or the business strategy, management plans and objectives for future operations of the Bank, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the Bank's actual results, performance or achievements, or industry results, to be materially different from those expressed or implied by these forward-looking statements. These forward-looking statements are contained in sections of this Base Prospectus entitled "*Risk Factors*" and "*Description of the Bank*" and other sections of this Base Prospectus. The Bank has based these forward-looking statements on the current view of its management with respect to future events and financial performance. These forward-looking statements are based on numerous assumptions regarding the Bank's present, and future, business strategies and the environment in which the Bank expects to operate in the future. Important factors that could cause the Bank's actual results, performance or achievements to differ materially from those in the forward-looking statements are discussed in this Base Prospectus in the section entitled "*Risk Factors*".

Forward-looking statements speak only as at the date of this Base Prospectus and, without prejudice to any requirements under applicable laws and regulations, the Bank, the Sole Arranger and the Dealers expressly disclaim any obligation or undertaking to publicly update or revise any forward-looking statements in this Base Prospectus to reflect any change in the expectations of the Bank or any change in events, conditions or circumstances on which these forward-looking statements are based. Given the uncertainties of forward-looking statements, the Bank cannot assure potential investors that projected results or events will be achieved and the Bank cautions potential investors not to place undue reliance on these statements.

Pursuant to the requirements of the Rules on the Offer of Securities and Continuing Obligations, the Bank must submit a supplementary Base Prospectus to the Authority if, at any time after the publication of this Base Prospectus (and before completion of any offer of Sukuk), the Bank becomes aware that:

(i) there has been a significant change in material matters contained in this Base Prospectus; or

(ii) additional significant matters have become known which would have been required to be included in this Base Prospectus.

With the exception of these two cases, the Bank does not intend to update or change any sector or market information or the forward-looking-statements included in this Base Prospectus, whether as a result of new information, future events or otherwise. As a result, the forward-looking events and circumstances discussed in this Base Prospectus might not occur in the way the Bank expects, or at all. Therefore, Sukukholders should consider all forward-looking statements in light of these explanations and should not place undue reliance on forward-looking statements.

PARTIES AND ADVISERS

ISSUER

Al Rajhi Banking and Investment Corporation
Al Rajhi Head Office - 8467 King Fahd Road - Al Muruj District - Riyadh 12263 – 2743
P.O. Box 28, Riyadh 11411
Tel: +966 9 20003344 (Saudi Arabia)
Tel: +966 1 14603333 (International)
Fax: +966 11 211 9368
Website: https://www.alrajhibank.com.sa/
Email: IR@alrajhibank.com.sa
TreasurerOffice@alrajhibank.com.sa

مصرف الراجحي
alrajhi bank

Issuer Representatives

Abdullah bin Sulaiman Al Rajhi - Chairman of the Bank
Al Muruj District - Riyadh 12263 – 2743
P.O. Box 28, Riyadh 11411 - Kingdom of Saudi Arabia
Tel: +966 11 828 1111
Fax: +966 11 211 9368
Website: https://www.alrajhibank.com.sa/
Email: IR@alrajhibank.com.sa

Abdulrahman Mohammad Alajaji - General Manager Treasury Group
8467 King Fahd Road - Al Muruj District - Riyadh 12263 – 2743
P.O. Box 28, Riyadh 11411 - Kingdom of Saudi Arabia
Tel: +966 11 828 3060
Fax: +966 11 211 9368
Website: https://www.alrajhibank.com.sa/
Email: TreasurerOffice@alrajhibank.com.sa

FINANCIAL ADVISOR, SOLE ARRANGER AND DEALER

Al Rajhi Capital Company - Al Rajhi Capital
Head Office, King Fahd Road - P.O. Box 5561, Riyadh 11432
Kingdom of Saudi Arabia
Tel: +966 920005856
Fax: +966 (11) 460 00625
Email: arcprojectgold@alrajhi-capital.sa
Website: https://www.alrajhi-capital.sa/

الراجحي المالية
Al Rajhi Capital

RECEIVING BANKS

Al Rajhi Banking and Investment Corporation

Al Rajhi Head Office - 8467 King Fahd Road - Al Muruj District - Riyadh 12263 – 2743
P.O. Box 28, Riyadh 11411 - Kingdom of Saudi Arabia
Tel: +966 9 20003344 (Saudi Arabia)
Tel: +966 1 14603333 (International)
Fax: +966 11 211 9368
Website: https://www.alrajhibank.com.sa/
Email: trops@alrajhibank.com.sa
TreasuryMiddleOffice@alrajhibank.com.sa
MM-Investment-and-ALM@alrajhibank.com.sa

Additional Receiving Banks may be appointed on an issuance-by-issuance basis and shall be listed in the Applicable Final Terms in respect of each Series of Sukuk.

SUKUKHOLDERS' AGENT AND PAYMENT ADMINISTRATOR

Al Rajhi Capital Company

Al Rajhi Capital - Head Office, King Fahd Road - P.O. Box 5561, Riyadh 11432
Kingdom of Saudi Arabia
Tel: +966 920005856
Fax: +966 (11) 460 00625
Email: arcprojectgold@alrajhi.bank
https://www.alrajhi-capital.sa/

ACCOUNT BANK

Al Rajhi Banking and Investment Corporation

Al Rajhi Head Office - 8467 King Fahd Road - Al Muruj District - Riyadh 12263 – 2743
P.O. Box 28, Riyadh 11411 - Kingdom of Saudi Arabia
Tel: +966 9 20003344 (Saudi Arabia)
+966 1 14603333 (International)
Fax: +966 11 211 9368
Website: https://www.alrajhi-capital.sa/
Email: trops@alrajhibank.com.sa
TreasuryMiddleOffice@alrajhibank.com.sa
MM-Investment-and-ALM@alrajhibank.com.sa

SAUDI STOCK EXCHANGE

Saudi Tadawul Group (Tadawul)
Tawuniya Towers, Northern Tower - Unit Number: 15 - King Fahd Road
Olaya 6897 - Riyadh 12211 – 3388- Kingdom of Saudi Arabia
Tel: +966 (11) 9200 1919
Fax: +966 (11) 218 9133
Email: csc@saudiexchange.com.sa
Website: https://www.saudiexchange.sa

REGISTRAR

Securities Depository Center Company (Edaa)
Tawuniya Towers - Unit Number: 15 - King Fahd Road –
Olaya 6897 - Riyadh 12211 – 3388 - Kingdom of Saudi Arabia
Tel: +966 9200 26000
Email: cc@edaa.com.sa
Website: www.edaa.com.sa

من مجموعة تداول السعودية
From Saudi Tadawul Group

LEGAL ADVISERS TO THE ISSUER

Allen & Overy LLP
11th Floor, Burj Daman Building - Al Mustaqbal Street
Dubai International Financial Centre
P.O. Box 506678 - Dubai - United Arab Emirates
Tel: +971 4 426 7100
Fax: +971 4 426 7199
Website: https://www.allenovery.com
Email: alya.alkhodair@sa.ey.com / Muhammad.umair@sa.ey.com
Website: www.ey.com

Legal Consultants

Khoshaim & Associates
17th Floor, Tower B - Olaya Towers, Olaya Road - P.O. Box 230 6667, Riyadh 11321
Olaya Towers, Olaya Road - P.O. Box 230 6667, Riyadh 11321 - Kingdom of Saudi Arabia
Tel: +966 (11) 461 8700
Fax: +966 (11) 461 8799
Website: www.khoshaim.com
Email: Project.Gold@khoshaim.com

LEGAL ADVISERS TO THE SOLE ARRANGER AND DEALER

Clifford Chance LLP
Level 15, Burj Daman - Dubai International Financial Centre
P.O. Box 9380 - Dubai - United Arab Emirates
Tel: +971 4 503 2600
Fax: +971 4 503 2800
Email: Info.AlrajhiBank@CliffordChance.com
Website: https://www.cliffordchance.com/

Abuhimed Alsheikh Alhagbani Law Firm
Airport Road, Qurtubah - Building 15 - The Business Gate - Riyadh
Kingdom of Saudi Arabia
Tel: +966 (11) 481 9700
Fax: +966 (11) 4819701
Email: Info.AlRajhiBank@ashlawksa.com
Website: https://www.ashlawksa.com/

JOINT AUDITORS TO THE ISSUER

KPMG Professional Services
Riyadh Front, Airport Road - P O Box 92876 - Riyadh 11663
Kingdom of Saudi Arabia
Tel: +966 (11) 874 8500
Fax: +966 (11)874 8600
Email: www.philknowles@KPMG.com
Website: www.kpmg.com.sa

Ernst & Young Professional Services (Professional LLC)
Al Faisaliah Office Tower, 14th Floor - King Fahd Road - P.O. Box 2732 - Riyadh 11461
Kingdom of Saudi Arabia
Tel: +966 (11) 260 5149 / +966 (11) 215 9404
Fax: +966 (11) 273 4730
Email: alya.alkhodair@sa.ey.com / Muhammad.umair@sa.ey.com
Website: www.ey.com

TABLE OF CONTENTS

SUMMARY OF THE PROGRAMME

The following is a summary of the principal features of the Programme. This summary does not contain all of the information that a prospective investor should consider before investing in Sukuk and is qualified in its entirety by the remainder of this Base Prospectus and the Applicable Final Terms. Each investor should read this entire Base Prospectus and the Applicable Final Terms carefully, before making an investment decision. In particular, prospective investors should consider carefully the factors set forth under the heading "*Risk Factors*" and the section entitled "*Important Notice*". Capitalised terms used but not defined in this summary have the meanings given to them in the "*Terms and Conditions of the Sukuk*" section of this Base Prospectus and any reference herein to a specified "*Condition*" shall be construed accordingly.

Summary of the Issuer

Name	Al Rajhi Banking and Investment Corporation (the "**Issuer**" or the "**Bank**", and together with its subsidiaries, the "**Group**").
Description and incorporation	The Issuer was incorporated under Commercial Registration no. 1010000096 on 25/10/1376H (corresponding to 25/05/1957G) and converted into a joint stock company under the Royal Decree No. M/59 dated 3/11/1407H (corresponding to 29/06/1987G).
Issuer's Activities	In accordance with the Bylaws, the principal business activities of the Bank shall be to engage in banking and investment activities in accordance with the Bylaws and all applicable laws and regulations in the Kingdom, as well as the by-laws, resolutions and rules issued by SAMA. Further details of the Bank's history, strategy, business and other information can be found below under the "*Description of the Business of the Group*" section of this Base Prospectus.
Substantial shareholders (ownership percentages and number of shares)	There are no shareholders which own 5.0 per cent. or more of the Bank's share capital as at 30 June 2022G.
Capital of the Issuer	SAR 40,000.0 million, comprising 4,000 million shares of SAR 10 each.
Total outstanding shares	4,000 million shares

Parties

Issuer	Al Rajhi Banking and Investment Corporation.
Sole Arranger	Al Rajhi Capital Company.
Dealers	Al Rajhi Capital Company together with any other Dealers appointed in accordance with the Programme Agreement (together, the "**Dealers**").
Sukukholders' Agent	Al Rajhi Capital Company with its registered address at Al Rajhi Capital, Head Office, King Fahd Road, P.O. Box 5561, Riyadh 11432, Kingdom of Saudi Arabia.
Payment Administrator	Al Rajhi Capital Company with its registered address at Al Rajhi Capital, Head Office, King Fahd Road, P.O. Box 5561, Riyadh 11432, Kingdom of Saudi Arabia.
Account Bank	Al Rajhi Banking and Investment Corporation with its registered address at Al Rajhi Head Office, 8467 King Fahd Road, Al Muruj District, Riyadh 12263 – 2743, Kingdom of Saudi Arabia.
Registrar	Securities Depository Center Company ("**Edaa**") with its registered address at Tawuniya Towers, Unit Number: 15, King Fahd Road – Olaya 6897, Riyadh 12211 – 3388, Kingdom of Saudi Arabia.

Summary of the terms of Sukuk of each Series and the rights of the Sukukholders

Terms of each Series	The specific terms of each Series will be set out in the Applicable Final Terms.
Issuance in Series	The Sukuk will be issued in Series. Each Series may comprise one or more Tranches issued on different Issue Dates. The Sukuk of each Series will have the same terms and conditions or terms and conditions which are the same in all respects, save for the amount and date of the first payment of Periodic Distribution Amounts thereon and the date from which the Periodic Distribution Amounts start to accrue.
Issue Date	The Issue Date of each Series of Sukuk will be set out in the Applicable Final Terms.
Profit Rate	For the Initial Period, each Series of Sukuk shall bear profit at the relevant Initial Periodic Distribution Rate. The relevant Profit Rate will be reset on each relevant Reset Date on the basis of the aggregate of the relevant Margin and the Relevant Reset Rate on the relevant Determination Date, as determined by the Payment Administrator.
Transaction Structure	A diagram of the structure of the transaction and the principal cashflows is set out under "*Structure Diagram and Cashflows*" below.
Programme Size	The aggregate nominal amount of the Sukuk from time to time as are outstanding under the Programme will not exceed SAR 10,000,000,000 and number of Sukuk not exceeding 10,000,000 Sak, subject to increase in accordance with the Programme Agreement and all applicable laws and regulations in the Kingdom.
Issuance Size/ nominal value for offered debt instrument	The aggregate nominal amount of each Series of Sukuk will be set out in the Applicable Final Terms.
Minimum number of Sukuk to be subscribed for	The minimum number of each Series of Sukuk to be subscribed for is 5 Sak of each Series of Sukuk to be issued under the Programme, unless otherwise specified in the Applicable Final Terms.
Maximum number of Sukuk to be subscribed for	The aggregate maximum number of the Sukuk of all Series to be subscribed for will be 10,000,000 Sak of each Series of Sukuk to be issued under the Programme. The Applicable Final Terms will specify the maximum number of Sukuk to be subscribed for in respect of each Series.
Minimum value of Sukuk to be subscribed for	The minimum value of each Series of Sukuk to be subscribed for is SAR 5,000 of each Series of Sukuk issued under the Programme, unless otherwise specified in the Applicable Final Terms.
Maximum value of Sukuk to be subscribed for	The aggregate maximum value of the Sukuk of all series to be subscribed for is SAR 10,000,000,000. The Applicable Final Terms will specify the maximum value of Sukuk to be subscribed for in respect of each Series.
Targeted Participants	The Sukuk will be offered to eligible natural and legal persons in the Kingdom and any other relevant jurisdiction.
Offer Period	Each offer period for the relevant Tranche of the Sukuk will be specified in the Applicable Final Terms (each, an "**Offer Period**") and the relevant Tranche of Sukuk will be allocated after the end of the applicable Offer Period and issued on a date (each, an "**Issue Date**") notified by the Issuer and the Sole Arranger and Dealers to the relevant potential investors after the end of the relevant Offer Period. For further details, see "*Subscription and Sale*".

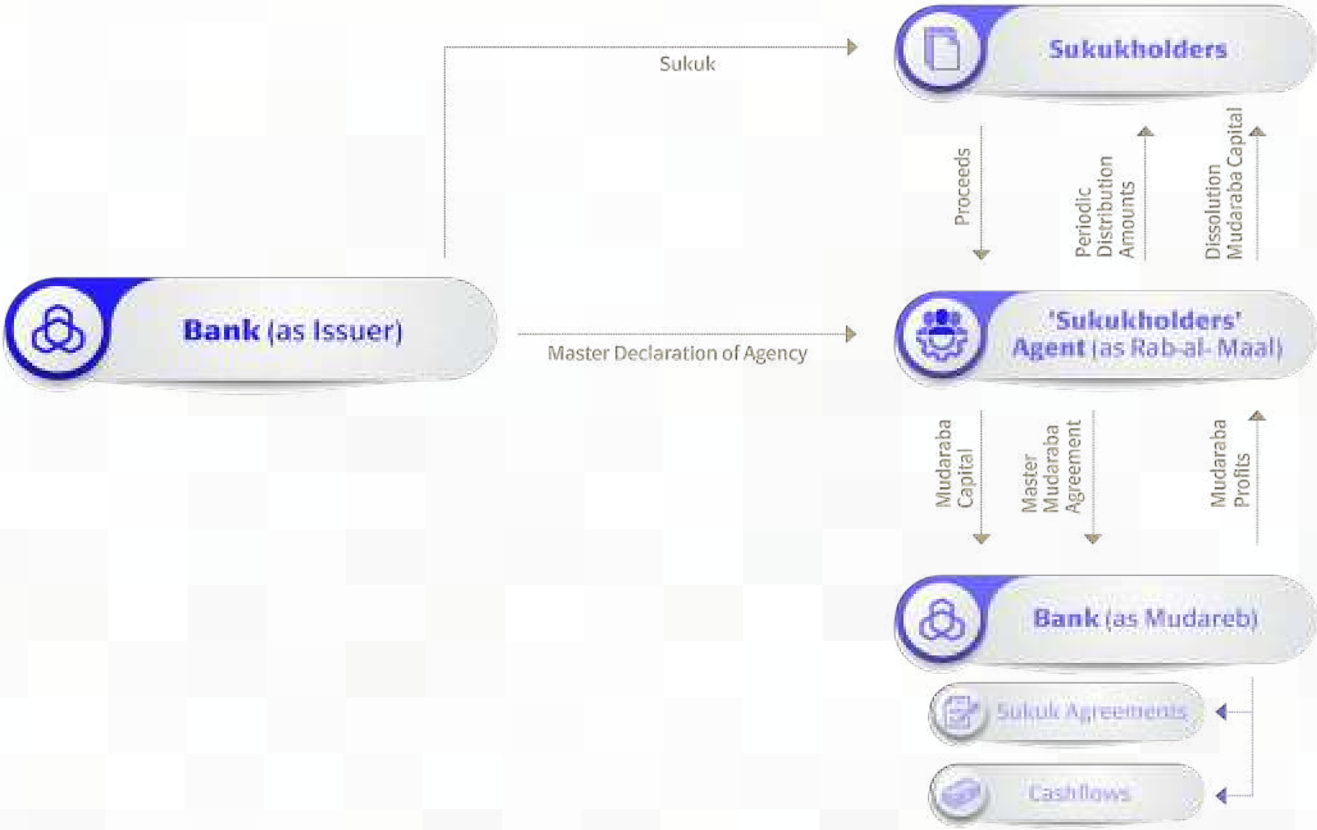
Subscription Method	Targeted participants wishing to purchase the Sukuk of the relevant Series will be required to submit a duly completed form (an "**Investor Application Form**") to the relevant Dealer(s), and in relation to the individual participants, to the receiving banks ("**Receiving Banks**"), before the end of the Offer Period (as defined herein) and shall make payment for the Sukuk of such Series as per the instructions contained in the Investor Application Form. Investor Application Forms will be available from the relevant Dealer(s), or from the Receiving Banks, as applicable, in respect of such Series. Applications to purchase Sukuk for less than the Specified Denomination will not be accepted. For further details, please see "*Subscription and Sale*".
Allocation Method and return of excess	The allocation method of each Series of Sukuk will be specified in the Applicable Final Terms. Excess subscription monies paid by individual participants, if any, will be refunded after completion of the allocation of Sukuk of the relevant Series by transfer to the Bank Account from which the monies were received without any charge or commission being withheld by the Receiving Banks.
Currencies	The Sukuk will be denominated in Saudi Arabian Riyals ("**SAR**").
Specified Denominations	The Sukuk will be in registered form in denominations of SAR 1,000.
Maturities	The Sukuk of each Series are perpetual securities and accordingly do not have a mandatory fixed redemption date.
Issue Price	Sukuk may only be issued on a fully paid basis and at an issue price which is at par.
Status	The Sukuk represent an undivided ownership interest of the Sukukholders in the Sukuk Assets and shall at all times rank pari passu without any preference or priority among themselves.
Subordination	The Sukuk and the Relevant Obligations will each constitute direct, unsecured, unconditional and subordinated obligations of the Issuer and shall, upon the occurrence of a Winding Up Proceeding rank: (1) subordinate and junior to all Senior Obligations but not further or otherwise; (2) pari passu with all other Pari Passu Obligations; and (3) in priority only to all Junior Obligations.
Periodic Distributions	Sukukholders are entitled to receive Periodic Distribution Amounts calculated on the basis specified in the Applicable Final Terms.
Transaction Account	On the Issue Date, the proceeds of the subscription of the Sukuk shall be deposited by the Sukukholders into a non-interest bearing account with the Account Bank in respect of such Series held in the name of the Sukukholders' Agent (for and on behalf of the Sukukholders) and administered by the Payment Administrator on its behalf (the "**Transaction Account**").
Limitation on Payment of Periodic Distribution Amounts	If the Issuer makes a Non-Payment Election or a Non-Payment Event occurs, the Issuer shall not pay the corresponding Periodic Distribution Amounts (or any part thereof, as applicable) and the Issuer shall not have any obligation to make any subsequent payment in respect of any unpaid Periodic Distribution Amount as more particularly described in Condition 7 (Periodic Distribution Restrictions). In such circumstances, distributions will not be cumulative and any distributions which are not paid will not accumulate or compound and the Sukukholders will have no right to receive such distributions at any time, even if other distributions are paid in the future.

Dividend and Redemption Restrictions	The payment of dividends by the Issuer will be subject to the payment of the relevant Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit or Periodic Distribution Amounts on the relevant Sukuk of that Series being made, as more particularly described in Condition 7.4 (Dividend and Redemption Restrictions).
Sukuk Assets	In relation to each Series, the Sukuk Assets shall comprise: (a) the cash proceeds of the issue of the Sukuk, pending application thereof in accordance with the terms of the Transaction Documents; (b) all of the Sukukholders' Agent's rights, title, interest and benefit, present and future, in, to and under the assets from time to time constituting the Mudaraba Assets; (c) all of the Sukukholders' Agent's rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given by the Issuer (acting in any capacity) pursuant to any of the Transaction Documents and the covenants given to the Sukukholders' Agent pursuant to the Master Declaration of Agency); and (d) all amounts standing to the credit of the Transaction Account from time to time, and all proceeds of the foregoing, for and on behalf of the Sukukholders pro rata according to the nominal amount of the Sukuk held by each holder in accordance with the Master Declaration of Agency and the Conditions. None of the Sukukholders' Agent, the Sole Arranger or the Dealers or (so long as it performs its obligations under the Transaction Documents) the Issuer, is responsible for the performance or the profitability of the Sukuk Assets and the Sukukholders' Agent is not responsible for the share and amount of the distributions (if any) made to the Sukukholders.
Redemption of Sukuk	The Sukuk of each Series are perpetual securities and accordingly do not have a mandatory fixed redemption date. The Sukuk of each Series may be redeemed in whole but not in part by the Issuer only in accordance with the provisions of Condition 9 (Redemption). Pursuant to Condition 9.1(b) (Issuer's Call Option), the Issuer may elect to redeem all, but not some only, of the Sukuk of the relevant Series at the relevant Issuer Call Amount on: (i) if Condition 9.1(b)(ii) is marked as "applicable" in the Applicable Final Terms, on any date during the period commencing (and including) the relevant First Call Date to (and including) the relevant First Reset Date or on any relevant Periodic Distribution Date thereafter; or (ii) if Condition 9.1(b)(iii) is marked as "applicable" in the Applicable Final Terms, on the First Call Date or on any relevant Periodic Distribution Date thereafter. In addition (on any date on or after the Issue Date (whether or not a Periodic Distribution Date)), upon the occurrence of a Tax Event or a Capital Event, all, but not some only, of the Sukuk of the relevant Series may be redeemed in accordance with Conditions 9.1(c) (Redemption due to Taxation) and 9.1(d) (Redemption for Capital Event). In all cases, any redemption of the Sukuk of the relevant Series is subject to the conditions described in Condition 9.1(a) (No Fixed Redemption Date and Conditions for Redemption).
Write-down at the Point of Non- Viability	If a Non-Viability Event occurs prior to the date on which the Applicable Statutory Loss Absorption Regime becomes effective in respect of the Sukuk of a relevant Series, a Write-down (as defined herein) shall occur on the relevant Non-Viability Event Write-down Date (as defined herein), as more particularly described in Condition 10 (Write-down at the Point of Non-Viability). In such circumstances, the Sukukholders' rights to the Sukuk Assets of that Series shall automatically be deemed to be irrevocably and unconditionally Written-down in a proportion corresponding to the relevant Write-down Amount and the Sukuk of that Series shall be cancelled (in the case of a Write-down in whole) or Written-down in part on a pro rata basis.

Events of Default	For the events and circumstances that shall constitute an Event of Default under the Sukuk of a relevant Series and a description of the consequences thereof, see Condition 11 (Events of Default and Winding-up).
Taxation	All payments in respect of the Sukuk of a relevant Series shall be made free and clear of and without withholding for any taxes imposed, levied, collected, withheld or assessed by or on behalf of the Kingdom or any political sub-division or authority thereof or therein having the power to tax ("**Taxes**"), unless the withholding or deduction of the Taxes is required by law. In such event, the Issuer will pay additional amounts ("**Additional Amounts**") so that the full amount which otherwise would have been due and payable under the Sukuk of that Series is received by the parties entitled thereto provided that no such Additional Amount shall be payable to any Sukukholder that is not, or at any time ceases to be, a Qualified Person.
Restrictions	There are restrictions on the distribution of this Base Prospectus and the offer or sale of Sukuk of any Series. In particular and only where applicable, in the Kingdom, the distribution of this Base Prospectus and the offering, sale and delivery of the Sukuk are limited solely to those persons who are permitted under the Rules on the Offer of Securities and Continuing Obligations. For a more detailed description of these and other restrictions on offers, sales and deliveries of Sukuk of any Series and on the distribution of this Base Prospectus and any offering materials relating to the Sukuk of a relevant Series, see "*Subscription and Sale*".
Use of Proceeds	The net proceeds of the issue of each Series of Sukuk will be contributed by the Sukukholders' Agent (as Rab-al-Maal) to the Issuer (as Mudareb) as Mudaraba Capital pursuant to the terms of the Master Mudaraba Agreement and will be used by the Issuer to enhance its tier 1 capital as well as for general corporate purposes, all in accordance with the investment plan set out in the Master Mudaraba Agreement.
Form of the Sukuk	Each Series of Sukuk will be issued in dematerialised registered form and will be collectively represented by the Global Sak which will be deposited as the Sukukholders' Agent may direct in accordance with the provisions of the Master Declaration of Agency. Definitive Sukuk representing holdings of the Global Sak will not be issued however Sukukholders will on request be entitled to receive a statement from the Registrar recording their holding of Sukuk.
Listing and Admission to Trading	Application has been made to Capital Market Authority of the Kingdom of Saudi Arabia for registration and offer of the Sukuk and to the Saudi Arabian Stock Exchange (Tadawul) ("**Tadawul**") for the Sukuk to be listed on Tadawul.
Transfers	Subject to Condition 3.3 (Regulations concerning Transfers and Registrations), the Sukuk of a relevant Series may be transferred in accordance with the regulations and procedures established by the Registrar by delivering to the Registrar such information as such regulations and procedures shall require.
Listing and Admission to Trading	Application will be made to Tadawul for Sukuk of a relevant Series issued under the Programme to be listed and admitted to trading on Tadawul.
Transaction Documents	Each of the Declaration of Agency, the Payment Administration Agreement, the Master Mudaraba Agreement and any other agreements, deeds, undertakings or other documents designated as such by the parties thereto.

Risk Factors	An investment in any Series of Sukuk issued under the Programme should be made only after careful consideration by a prospective investor of its individual circumstances. There are certain factors that may affect the Issuer's ability to fulfil its obligations under a Series of Sukuk issued under the Programme and the Transaction Documents. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Sukuk of such Series issued under the Programme. These are set out in the section entitled "*Risk Factors*". A prospective investor must also carefully review the section of this Base Prospectus entitled "*Important Notice*" before deciding to invest in the Sukuk.
Governing Law and Jurisdiction	The Transaction Documents and each Series of Sukuk are to be governed by, and are to be construed in accordance with, Saudi Law and are subject to the exclusive jurisdiction of the Kingdom's Committee for Resolution of Securities Disputes and the Appeal Committee for Resolution of Securities Disputes (the "**Committees**").
Sukukholder Meetings	A summary of the provisions for convening meetings of Sukukholders of each Series of Sukuk to consider matters relating to their interests as such is set out in Condition 15 (Meetings of Sukukholders; Modification) and as further set out in the Master Declaration of Agency. Sukukholders should note that the provisions contained in the Master Declaration of Agency regarding Sukukholder meetings are subject to applicable Saudi Arabian law as may be amended from time to time and as applied in practice. In the event of any inconsistency between those provisions and applicable law as applied in practice, the applicable law shall prevail.
Further Issues	In respect of any Series, the Issuer shall be at liberty from time to time without the consent of the Sukukholders to create and issue additional Sukuk having the same terms and conditions as the Sukuk of such Series as are outstanding or terms and conditions which are the same in all respects save for the date and amount of the first payment of the Periodic Distribution Amount and the date from which Periodic Distribution Amounts start to accrue and so that the same shall be consolidated and form a single Series with the Sukuk of such Series as are outstanding. See Condition 16 (Further Issues) for further information.

STRUCTURE DIAGRAM AND CASHFLOWS



SUMMARY OF FINANCIAL INFORMATION

The following information has been extracted from, and should be read in conjunction with, and is qualified in its entirety by reference to, the Financial Statements.

Consolidated statement of financial position as at 30 June 2022G and as at 31 December 2021G, 2020G and 2019G

The table below shows the Group's unaudited interim condensed consolidated statement of financial position as at 30 June 2022G and its audited consolidated statement of financial position as at 31 December in each of 2021G, 2020G and 2019G.

	As at 30 June (unaudited)		As at 31 December (audited)		
	2022G	2021G	2021G	2020G	2019G
Assets			(SAR thousand)		
Cash and balances with Saudi Central Bank "SAMA" and other central banks(1)	37,713,730	36,913,810	40,363,449	47,362,522	39,294,099
Due from banks and other financial institutions, net	29,412,157	26,212,976	26,065,392	28,654,842	32,058,182
Investments, net	96,290,764	74,201,967	84,138,142	60,046,093	46,646,395
Financing, net	519,700,730	390,295,755	452,830,657	315,712,101	249,682,805
Investment in an associate(2)	327,439	271,904	295,253	239,179	196,235
Investment properties, net	1,378,310	1,528,252	1,411,469	1,541,211	1,383,849
Property and equipment, net	11,238,795	10,473,335	10,665,799	10,234,785	10,407,247
Other assets, net	13,717,122	6,241,238	7,901,754	5,033,990	4,417,764
Total assets	**709,779,047**	**546,139,237**	**623,671,915**	**468,824,723**	**384,086,576**
Liabilities and shareholders' equity iabilities					
Due to banks and other financial institutions	42,532,024	14,085,256	17,952,140	10,764,061	2,219,604
Customers' deposits	552,956,842	447,506,182	512,072,213	382,631,003	312,405,823
Other liabilities	32,376,998	24,877,728	26,338,711	17,311,141	18,269,492
Total liabilities	**627,865,864**	**486,469,166**	**556,363,064**	**410,706,205**	**332,894,919**

Shareholders' equity					
Share capital	40,000,000	25,000,000	25,000,000	25,000,000	25,000,000
Statutory reserve	25,000,000	25,000,000	25,000,000	25,000,000	21,789,632
Other reserves	(244,528)	476,653	309,394	(134,728)	(216,041)
Retained earnings	10,657,711	9,193,418	16,999,457	8,253,246	868,066
Proposed gross dividends	-	-	-	-	3,750,000
Tier 1 Sukuk	6,500,000	-		-	-
Total shareholders' equity (3)	**81,913,183**	**59,670,071**	**67,308,851**	**58,118,518**	**51,191,657**
Total liabilities and shareholders' equity (4)	**709,779,047**	**546,139,237**	**623,671,915**	**468,824,723**	**384,086,576**

Source: Financial information in the table above in respect of 30 June 2022G and 30 June 2021G has been extracted from the Group's unaudited interim financial statements for the six-month period ended 30 June 2022G, Interim Condensed Consolidated Statement of Financial Position, in respect of 31 December 2021G, from the audited consolidated financial statements for the financial years ended 31 December 2021G, and in respect of 31 December 2020G and 31 December 2019G, from the audited consolidated financial statements for the financial year ended 31 December 2020G, Financial Statements

Notes:

(1) Disclosed as "Cash and balances with Central Banks" in the unaudited Interim Financial Statements.

(2) Disclosed as "Investment in associate" in the unaudited Interim Financial Statements.

(3) Disclosed as "Total equity" in the unaudited Interim Financial Statements.

(4) Disclosed as "Total liabilities and equity" in the unaudited Interim Financial Statements.

Unaudited interim condensed consolidated statement of income for the six-month periods ended 30 June 2022G and 30 June 2021G

The table below shows the Group's unaudited interim condensed consolidated statement of income for each of the six-month periods ended 30 June 2022G and 30 June 2021G.

	Six months ended 30 June (unaudited)	
	2022G	2021G
Income	(SAR thousand)	
Gross financing and investment income	12,370,714	10,157,896
Gross financing and investment return	(1,463,779)	(335,571)
Net financing and investment income	**10,906,935**	**9,822,325**
Fee from banking services, net	2,310,420	1,843,096
Exchange income, net	544,623	359,384
Other operating income, net	342,444	259,093
Total operating income	**14,104,422**	**12,283,898**

Expenses		
Salaries and employees' related benefits	1,609,685	1,537,799
Depreciation and amortisation	643,772	539,402
Other general and administrative expenses	1,335,658	1,304,378
Total operating expenses before credit impairment charge	**3,589,115**	**3,381,579**
Impairment charge for financing and other financial assets, net	1,158,725	1,160,956
Total operating expenses	**4,747,840**	**4,542,535**
Net income for the period before zakat	9,356,582	7,741,363
Zakat expense	(964,732)	(801,191)
Net income for the period	**8,391,850**	**6,940,172**

Source: Financial information in the table above in respect of 30 June 2022G and 30 June 2021G has been extracted from the Group's unaudited interim financial statements for the six-month period ended 30 June 2022G, Interim Condensed Consolidated Statement of Income

Interim condensed consolidated statement of comprehensive income for the six-month periods ended 30 June 2022G and 30 June 2021G

The table below shows the Group's unaudited interim condensed consolidated statement of comprehensive income for each of the six-month periods ended 30 June 2022G and 30 June 2021G.

	Six months ended 30 June (unaudited)	
	2022G	2021G
	(SAR thousand)	
Net income for the period	8,391,850	6,940,172
Other comprehensive income		
Items that will not be reclassified to the interim condensed consolidated statement of income in subsequent periods:		
Net change in fair value of investments held at fair value through other comprehensive income (FVOCI equity investment)	(593,973)	565,604
Re-measurement of employees' end of service benefits liabilities (ESOB)	158,712	48,810
Items that may be reclassified to the interim condensed consolidated statement of income in subsequent periods:		
Exchange difference on translation of foreign operations	(478,47)	(19,119)
Net change in fair value (FVOCI Sukuk Investment)	(002,15)	-
Share in other comprehensive income from associate	7,413	16,086
Total comprehensive income for the period	**7,837,928**	**7,551,553**

Source: Financial information in the table above in respect of 30 June 2022G and 30 June 2021G has been extracted from the Group's unaudited interim financial statements for the six-month period ended 30 June 2022G, Interim Condensed Consolidated Statement of Comprehensive Income.

Consolidated statement of income for years ended 31 December 2021G, 2020G and 2019G.

The table below shows the Group's consolidated statement of income for each of 2021G, 2020G and 2019G.

	Year ended 31 December (audited)		
	2021 G	2020 G	2019 G
		(SAR thousand)	
Gross financing and investment income	21,441,506	17,377,963	16,962,583
Return on customers', banks' and financial institutions' time investments	(1,049,570)	(464,946)	(534,860)
Net financing and investment income	20,391,936	16,913,017	16,427,723
Fee from banking services, net	3,933,107	2,659,680	1,987,367
Exchange income, net	787,898	783,894	774,096
Other operating income, net	603,457	364,669	295,278
Total operating income	**25,716,398**	**20,721,260**	**19,484,464**
Expenses			
Salaries and employees'-related benefits	(3,132,346)	(2,977,344)	(2,794,046)
Depreciation and amortisation	(1,141,932)	(1,118,148)	(1,059,582)
Other general and administrative expenses	(2,652,244)	(2,646,409)	(2,532,213)
Operating expenses before credit impairment charge	(6,926,522)	(6,741,901)	(6,385,841)
Impairment charge for financing and other financial assets, net	(2,345,086)	(2,165,740)	(1,772,265)
Total operating expenses	**(9,271,608)**	**(8,907,641)**	**(8,158,106)**
Income for the year before zakat	16,444,790	11,813,619	11,326,358
Zakat for the year	(1,698,579)	(1,218,071)	(1,167,831)
Net income for the year	**14,746,211**	**10,595,548**	**10,158,527**

Source: Financial information in the table above in respect of 31 December 2021G has been extracted from the Group's audited consolidated financial statements for the financial year ended 31 December 2021G, and in respect of 31 December 2020G and 31 December 2019G, from the audited consolidated financial statements for the financial year ended 31 December 2020G, Financial Statements

Consolidated statement of comprehensive income for years ended 31 December 2021G, 2020G and 2019G

The table below shows the Group's consolidated statement of comprehensive income for each of 2021G, 2020G and 2019G.

	Years ended 31 December (audited)		
	2021 G	2020 G	2019 G
	(SAR thousand)		
Net income for the year	14,746,211	10,595,548	10,158,527
Other comprehensive income			
Items that cannot be reclassified to consolidated statement of income in subsequent periods:			
Net change in fair value of equity investments held at fair value through other comprehensive income	399,339	254,222	178,773
Re-measurement of employees' end of service benefits liabilities	42,055	(179,605)	(51,630)
Items that can be reclassified to the consolidated statement of income in subsequent periods			
Exchange difference on translating foreign operations	(21,316)	6,696	6,371
Share in other comprehensive income from associate	24,044	-	-
Total comprehensive income for the year	**15,190,333**	**10,676,861**	**10,292,041**

Source: Financial information in the table above in respect of 31 December 2021G has been extracted from the Group's audited consolidated financial statements for the financial year ended 31 December 2021G, and in respect of 31 December 2020G and 31 December 2019G, from the audited consolidated financial statements for the financial year ended 31 December 2020G, Financial Statements

Interim condensed consolidated statement of cash flows for the six-months ended 30 June 2022G and 2021G

The table below summarises the Group's interim condensed consolidated statement of cash flows for each of the six-month periods ended 30 June 2022G and 30 June 2021G.

	Six months ended 30 June (unaudited)	
	2022 G	2021 G
	(SAR thousand)	
Net cash generated from operating activities	13,107,061	658,746
Net cash used in investing activities	(14,352,461)	(16,152,548)
Net cash generated from / (used in) financing activities	6,424,440	(2,518,876)
Cash and cash equivalents at the beginning of the period	24,296,788	34,086,995
Cash and cash equivalents at the end of the period	29,475,828	16,074,317

Source: Financial information in the table above in respect of 30 June 2022G and 30 June 2021G has been extracted from the Group's unaudited interim financial statements for the six-month period ended 30 June 2022G, Interim Condensed Consolidated Statement of Cash Flows

Audited consolidated statement of cash flows for years ended 31 December 2021G, 2020G and 2019G

The table below summarises the Group's audited consolidated statement of cash flows for each of 2021G, 2020G and 2019G.

	Years ended 31 December (audited)		
	2021 G	2020 G	2019 G
	(SAR thousand)		
Net cash generated from operating activities	19,953,381	24,420,015	4,186,544
Net cash used in investing activities	(24,503,138)	(8,911,792)	(5,185,609)
Net cash used in financing activities	(6,037,357)	(3,792,261)	(7,676,039)
Cash and cash equivalents at the beginning of the year	32,827,361	21,111,399	29,786,503
Cash and cash equivalents at the end of the year	22,240,247	32,827,361	21,111,399

Source: Financial information in the table above in respect of 31 December 2021G has been extracted from the Group's audited consolidated financial statements for the financial year ended 31 December 2021G, and in respect of 31 December 2020G and 31 December 2019G, from the audited consolidated financial statements for the financial year ended 31 December 2020G, Financial Statements

Key performance indicators for the six-month period ended 30 June 2022G and the years ended 31 December 2021G, 2020G and 2019G

The table below shows selected consolidated ratios for the Group as at and for the six-month period ended 30 June 2022G and as at and for the years ended 31 December 2021G, 31 December 2020G and 31 December 2019G.

	As at six months ended 30 June (unaudited)		As at year ended 31 December (audited)		
	2022 G	2021 G	2021 G	2020 G	2019 G
	(per cent.)				
Performance measures					
Return on average assets (1)	2.6	2.7	2.7	2.6	2.8
Return on average equity (2)	23.4	23.1	23.9	19.9	20.5
Cost to income ratio (3)	25.4	27.5	26.9	32.5	32.8
Cost of funds(4)	0.52	0.16	0.23	0.13	0.17
Financial ratios					
Net financing and investment income margin (5)	3.8	4.4	4.2	4.7	5.3
Asset quality					
NPFA ratio(6)	Other ratios	0.67	0.65	0.76	0.91
NPFA coverage ratio(7)	293.0	318.1	305.6	305.6	303.0
Liquidity coverage ratio(8)	121.0	126.2	121.0	155.3	175.0
Financing to deposits ratio(9)	83.8	83.2	82.3	78.8	79.2
Cost of risk(10)	0.47	0.64	0.60	0.75	0.71

	As at six months ended 30 June (unaudited)		As at year ended 31 December (audited)		
	2022 G	2021 G	2021 G	2020 G	2019 G
			(per cent.)		
Other ratios					
Common equity tier 1 capital adequacy ratio(11)	16.5	16.9	16.5	18.0	18.8
Tier 1 capital adequacy ratio(11)	17.9	16.9	16.5	18.0	18.8
Total capital adequacy ratio(11)	19.0	18.0	17.6	19.1	19.9
Basel Leverage ratio(11)	11.6	11.3	11.0	12.0	12.9
Net stable funding ratio(11)	109.8	113.3	114.0	123.4	131.9

Source: Financial information in the table above in respect of 30 June 2022G and 30 June 2021G has been extracted from the Group's unaudited interim financial statements for the six-month period ended 30 June 2022G, in respect of 31 December 2021G, the audited consolidated financial statements for the financial year ended 31 December 2021G, and in respect of 31 December 2020G and 31 December 2019G, from the audited consolidated financial statements for the financial year ended 31 December 2020G, Financial Statements, and from other accounting records maintained by the Group.

Notes:

1. Net income for the period (annualised in the case of the six-month period ended 30 June 2022G) divided by average total assets, with average total assets calculated as the sum of average total assets for each month in the year divided by the number of months.

2. Net income for the period (annualised in the case of the six-month period ended 30 June 2022G) divided by average total shareholders' equity calculated as the sum of average total shareholders' equity for each month in the year divided by the number of months.

3. Total operating expenses before impairment charge divided by total operating income.

4. Calculated as the aggregate return paid on customers', banks' and financial institutions' time deposits divided by average balance of due to banks and other financial institutions and customers' deposits. The average balance is calculated as the sum of the opening and closing balances for the year divided by two.

5. Net financing and investment income for the period (annualised in the case of the six-month period ended 30 June 2022G) divided by average income earning assets for the year, with average income earning assets calculated as the sum of daily income earning assets divided by the number of days. Income earning assets comprise due from banks and other financial institutions, net, financing, net and investments, net.

6. Non-performing financing as a percentage of gross financing, each as set out in note 7-1 to the unaudited Interim Financial Statements and note 7-1 to each of the audited Annual Financial Statements.

7. ECLs in respect of financing as a percentage of non-performing financing.

8. High liquid assets divided by net cash outflow.

9. Financing, net divided by total customers' deposits and adjusted in accordance with SAMA guidelines.

10. Calculated as Group NCL divided by average gross financing. Average gross financing is calculated as the sum of the opening and closing balances for the year divided by two.

11. Calculated in accordance with the requirements of Basel III as adopted by SAMA.

For the purposes of these notes, "annualised" means dividing it by six and multiplying it by 12.

SHARI'A COMMITTEE AND PRONOUNCEMENT

Prospective Sukukholders should not rely on the Pronouncement referred to below in deciding whether to make an investment in a Series of Sukuk and should consult their own Shari'a advisers as to whether the proposed transaction described in the Pronouncement referred to above is in compliance with Shari'a principles.

Pronouncement of members of the Shari'a Committee

Copies of the pronouncement (the "**Pronouncement**") which has been issued by members of Al Rajhi Capital Company's Shari'a Committee (the "**Shari'a Committee**"), on behalf of Al Rajhi Capital Company as Sole Arranger and on behalf of Al Rajhi Banking and Investment Corporation as Issuer, relating to the Sukuk and confirming that, in their view, the structure and mechanism of the Programme and each Series of Sukuk, as fully outlined in the Transaction Documents, and in the Base Prospectus, are in compliance with Shari'a principles, shall be distributed to prospective Sukukholders upon request to the Sole Arranger and Dealers.

The Pronouncement is included in this Base Prospectus on page 186. The Issuer and its subsidiaries do not accept any liability or make any representation, warranty or undertaking, express or implied, in relation to the accuracy or completeness of the information contained in the Pronouncement.

Overview of the Shari'a Committee

The Shari'a Committee is an independent committee and advises on all transactions and activities carried out by Al Rajhi Capital Company and controls the manner in which Al Rajhi Capital Company operates inside and outside of the Kingdom with regard to Shari'a compliance. All transactions executed by Al Rajhi Capital Company are subject to approval and control by the Shari'a Committee. The most important functions performed by the Shari'a Committee are as follows:

- examining the Al Rajhi Capital Company's transactions, contracts, agreements, documents and forms and providing a Shari'a opinion of them;
- participating in product innovation and development in light of Shari'a-compliance;
- ensuring that Al Rajhi Capital Company is committed to Shari'a-compliance in all its activities and transactions and ensuring the proper implementation of the Shari'a Committee's resolutions;
- approving Shari'a-compliance standards, studying reports relating to Shari'a-compliance performance and issuing directives to take corrective action when necessary; and
- establishing mechanisms for the disposal of funds that have been earned or acquired in violation of Shari'a principles and supervising their disbursement.

Members of the Shari'a Committee

The Shari'a Committee consists of three members with competence and extensive knowledge in the Shari'a field.

Sheikh Dr. Saleh Bin Mansour Al Garbou' (Chairman)

Sheikh Dr. Saleh Bin Mansour Al Garbou' is the Chairman of the Shari'a Committee at Al Rajhi Capital Company and Al Rajhi Company for Cooperative Insurance (Takaful). He is a lawyer and a certified arbitrator in the Arbitration Centre for the States of the Cooperation Council for GCC States – Bahrain.

Sheikh Dr. Soliman bin Abdullah Al Luhaidan (Member)

Sheikh Dr. Soliman bin Abdullah Al Luhaidan is a member of the Shari'a Committee at Al Rajhi Capital Company. He is a former Appeal Judge in the Supreme Judicial Council.

Sheikh Dr. Saad Bin Turki Al Khathlan (Member)

Sheikh Dr. Saad Bin Turki Al Khathlan is a member of the Shari'a Committee at Al Rajhi Capital Company. He is a former Member of the Council of Senior Scholars.

RISK FACTORS

The purchase of any Sukuk may involve substantial risks and is suitable only for investors who have the knowledge and experience in financial and business matters necessary to enable them to evaluate the risks and merits of an investment in any Sukuk.

The Issuer believes, to the best of its knowledge, that the factors described below represent the principal risks inherent in investing in Sukuk, but the inability of the Issuer to pay any amounts on or in connection with any Sukuk may occur for other reasons and the Issuer does not represent that the statements below regarding the risks of holding any Sukuk are exhaustive. The risks set out below may not include all risks that the Issuer may encounter, as additional risks that are not currently known to the Issuer may occur, as well as risks that are known to the Issuer but are considered immaterial as at the date of this Base Prospectus. These additional risks and the risks highlighted below, if they occur, may have an adverse effect on the Issuer's operational performance, financial position, results of operations, cash flows and prospectus.

There can be no assurance that the various structural elements described in this Base Prospectus will be sufficient to ensure payment to Sukukholders of any Periodic Distribution Amount or the Mudaraba Capital in respect of any Sukuk on a timely basis or at all.

An investment in the Sukuk is only appropriate for those investors who are able to evaluate the risk and the benefits of the investment and those who have sufficient resources to sustain any loss resulting from such investment. Prospective investors should also read the detailed information set out in the below risks and other information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.

The risks set out below are not presented in any assumed order of priority that can reflect the expected impact on the Issuer, importance, materiality or the likelihood of occurrence.

Words and expressions defined in this Base Prospectus shall have the same meanings in this section.

RISKS RELATING TO THE BANK AND ITS ABILITY TO FULFIL ITS OBLIGATIONS UNDER THE SUKUK

The Group's operations and assets are principally located in Saudi Arabia and, accordingly, the Group is exposed to general economic conditions in Saudi Arabia

The majority of the Group's assets, operations and interests are located in Saudi Arabia. Accordingly, its business is, and will continue to be, affected by the general economic conditions prevailing from time to time in Saudi Arabia and the Middle East generally as well as by global economic conditions that affect Saudi Arabia's economy generally.

The Government continues to pursue a policy of diversification, including the Saudi Vision 2030 (a strategic framework to reduce Saudi Arabia's dependence on oil, diversify its economy and develop public service sectors) and the National Transformation Program 2020G (an economic action plan implemented as part of the Saudi Vision 2030), to enhance the contribution of the non-oil sector to Saudi Arabia's real gross domestic product ("**GDP**"). Nevertheless, oil income will continue to play a pivotal role in economic planning and development in Saudi Arabia. According to GASTAT, the oil sector accounted for 38.8 per cent., 40.0 per cent. and 41.1 per cent. of Saudi Arabia's real GDP and 29.4 per cent., 22.9 per cent. and 31.5 per cent. of its nominal GDP in each of 2021G, 2020G and 2019G, respectively. In addition, oil exports accounted for 73.2 per cent., 68.7 per cent. and 76.6 per cent. of Saudi Arabia's total exports by value in 2021G, 2020G and 2019G, respectively and oil revenues accounted for 58.2 per cent., 52.8 per cent. and 64.1 per cent. of total Government revenue in 2021G, 2020G and 2019G, respectively.

International oil prices have fluctuated significantly over the past two decades and may remain volatile in the future. For example, in 2018G and 2019G the yearly average OPEC Reference Basket price (a weighted average of prices per barrel for petroleum blends produced by OPEC countries) was U.S.$69.78 and U.S.$64.04, respectively. In 2020G, the yearly average OPEC Reference Basket price was U.S.$41.47, reflecting a sharp drop in April 2020G (driven by OPEC actions and significantly reduced demand as a result of the coronavirus disease 2019G ("**COVID-19**") and a slow recovery throughout the remainder of the year. In 2021G, the annual average OPEC Reference Basket price was U.S.$69.89. The price per barrel of Arabian Light Crude Oil (which is one of five grades of crude oil produced by Saudi Arabia and constitutes part of the OPEC Reference Basket) has also generally moved in line with these trends. The Russia and Ukraine geopolitical conflict in 2022G has led to increases in both oil and gas prices.

As a result of this conflict, the OPEC Reference Basket monthly average price rose to U.S.$117.72 in June 2022G and oil prices continue to fluctuate significantly.

In 2020G, the Bank increased its net impairment charges for expected credit losses ("**ECL**"), principally reflecting the impact of, and ongoing uncertainty associated with, COVID-19. For example, the aggregate impact of various COVID-19 related adjustments made by the Bank contributed an additional ECL of SAR 608 million during 2020G. In 2020G, the Group also made certain adjustments to the macroeconomic factors and scenario weightings used in its ECL and, to the extent that certain effects could not be fully incorporated into the ECL model, management continued to exercise credit judgement to estimate ECL by considering reasonable and supportable information not already included in the quantitative models. During 2021G, the Group revised the scenario probabilities used for the determination of ECL and, as a result, it recognised overlays of SAR 486 million as at 31 December 2021G.

The impact of COVID-19 on Saudi Arabia's economy has had, and may continue to have, an adverse effect on the Group's credit risk profile. The Group conducts regular stress tests of its customer financing portfolio under scenarios of differing severity in order to identify key vulnerabilities and to measure resultant impacts on asset quality and performance. However, these stress-testing activities do not provide assurance against impacts that may be realised through external shocks and customer defaults may nevertheless occur. The occurrence of these events and a material increase in financing losses could have a material adverse effect on the Group, in particular through increases in the Group's non-performing financing, increased financing loss provisions and reduced demand for financing and other banking services, which could negatively impact the Group's profitability.

In addition, any sustained downturn in oil prices in the future could substantially slow down or disrupt Saudi Arabia's economy, and the banking sector in particular, which could in turn have an adverse impact on the Group and the market price of the Sukuk, see "*—Risks relating to the market, industry and regulatory environment—Saudi Arabia's economy is highly dependent on its oil revenue*" below.

COVID-19 adversely impacted the Group and may continue to adversely impact the Group

COVID-19 was first identified in China at the end of 2019G. COVID-19 spread rapidly and was declared by the World Health Organisation to be a global pandemic in March 2020G.

In response to COVID-19, governments around the world (including in Saudi Arabia) imposed restrictions on travel and on the freedom of movement of people. These measures significantly reduced economic activity in many countries in 2020G and at times in 2021G. Restrictive measures continue to different degrees in different countries and the ongoing and longer-term social, economic and political consequences of COVID-19 on global and regional economies are still largely uncertain. In addition, while Saudi Arabia has administered enough vaccinations to fully vaccinate approximately 97.3 per cent. of the population according to Reuters on 15 July 2022G, how the vaccination drive will continue to progress in Saudi Arabia is unclear and difficult to predict.

The COVID-19 pandemic has had a significant impact on investment sentiment, resulting in volatility in global capital markets and impacting commodity prices.

The resulting restrictions on travel and public transport, requirements for people to remain at home and practice social distancing, and prolonged closures of workplaces impacted trade and transportation of goods and severely disrupted the global economy. This caused equity and bond markets to fall, resulted in high levels of unemployment, and negatively impacted global demand for oil and oil prices. It also had a material negative impact on global economic growth rates, and adversely impacted Saudi Arabia's GDP in 2020G. For example, in its October 2021G World Economic Outlook, the IMF estimated that global real GDP had declined by 3.1 per cent. in 2020G and that real GDP in Saudi Arabia had declined by 4.1 per cent. in the same year (in its April 2022G World Economic Outlook, the IMF estimated that global real GDP grew by 6.1 per cent. in 2021G and real GDP in Saudi Arabia grew by 3.2 per cent. in 2021G).

Partly in response to the impact of COVID-19, the Bank increased its net impairment charge for financing and other financial assets, net by SAR 393.4 million, or 22.2 per cent., in 2020G compared to 2019G.

In 2020G, the Group made certain adjustments to the macroeconomic factors and scenario weightings used in its ECL calculation principally reflecting the impact of, and ongoing uncertainty associated with, COVID-19. To the extent that certain effects could not be fully incorporated into the ECL model calculations, management continued to exercise expert credit judgement to estimate ECL by considering reasonable and supportable information not already included in the quantitative models. As a result, in 2020G, management recognised SAR 608 million of overlays to reflect potential further credit deterioration. The Group continues to evaluate the current macroeconomic situation including the impact of the pandemic.

Given the inability to predict the duration of the current precautionary and preventive measures undertaken by Saudi Arabian authorities to prevent the spread of the COVID-19 pandemic, it is difficult for the Group to determine the size and extent of the overall financial impact at this stage. The Group is cognisant of both the micro and macroeconomic challenges that COVID-19 has posed, the effects of which may be felt for some time and is closely monitoring its exposures at a granular level. This includes reviewing specific economic sectors, regions, counterparties and collateral protection, taking appropriate customer credit rating actions and initiating the restructuring of financing, where required. The Group has also revised certain inputs and assumptions used for the determination of ECLs. In addition, the Group has conducted additional stress tests, considered additional risk management practices and commenced a review of credit exposure concentrations to manage potential business disruption due to the COVID-19 pandemic.

However, the COVID-19 pandemic and its effects may last for an extended period of time, and could result in significant and continued market volatility, exchange trading suspensions and closures, declines in global financial markets, higher default rates, and a substantial economic downturn or recession among other outcomes. Any or all of the foregoing factors could impair the Group's ability to maintain operational standards and may disrupt the operations of the Group's clients and service providers, adversely affect the value and liquidity of the Group's investments, and negatively impact the Group's performance and any investment in the Sukuk. The extent to which COVID-19 will affect the Group's business will depend on future developments, which are highly uncertain and cannot be predicted.

Should the COVID-19 outbreak continue to cause disruption to economic activity globally in 2022G, particularly if new vaccine resistant strains emerge (such as the omicron variant identified in late 2021G), there could be an adverse impact on the Group's financial assets. There could also be an adverse impact on the Group's income due to lower lending and transaction volumes and potentially higher credit losses. Other potential risks include credit rating migration which could negatively impact the Group's risk-weighted assets and capital position, and potential liquidity stress due, among other factors, to increased customer drawdowns and deposit withdrawals, notwithstanding the significant initiatives that governments and central banks in different countries have put in place to support funding and liquidity. In addition, lower interest rates globally could negatively impact the Group's gross financing and investment income.

The Group operates in a region that is subject to ongoing political and security concerns

The MENA region is subject to a number of geopolitical and security risks. Since 2011G, there has been significant political and social unrest in a number of countries in the MENA region, including Tunisia, Algeria, Egypt, Libya, Bahrain, Kuwait, Lebanon, Jordan, Iraq, Yemen and Syria. This unrest has ranged from public demonstrations to, in extreme cases, armed conflict, civil war, foreign military intervention and the overthrow of existing leadership.

In addition, in March 2015G, a coalition of countries, led by Saudi Arabia and supported by the international community, commenced military action against the Al-Houthi rebels in Yemen. The conflict in Yemen has not yet been fully resolved and military operations continue at a reduced scale. Saudi Arabia has been targeted on several occasions by ballistic missiles fired by the Al-Houthi rebels in Yemen since 2017G, and, while the majority of these missile attacks were successfully intercepted by Saudi Arabia's defence systems, there can be no assurance that the conflict in Yemen will not continue or re-escalate. Additionally, in September 2019G, the Abqaiq processing facility and the Khurais oil field in Saudi Arabia were damaged in a major act of sabotage which resulted in the temporary interruption of Saudi Arabia's oil and gas production. The Al- Houthi rebels claimed responsibility for the act of sabotage, although this claim has not been verified and has been disputed.

In addition, Saudi Arabia has experienced other occasional terrorist attacks in recent years, including incidents in Jeddah, Medina and Qatif in July 2016G, oil tanker sabotage and drone strikes on a crude oil pipeline in May 2019G, an explosion caused by a projectile which resulted in a fire in a fuel tank at a Saudi Aramco petroleum products distribution terminal in the north of Jeddah in November 2020G, projectile attacks in December 2021G in Jizan and, in March 2021G, a drone attack on a Saudi Aramco refinery in Riyadh.

In May 2018G, the United States announced its withdrawal from the Joint Comprehensive Plan of Action between the United Nations Security Council's five permanent members plus Germany and Iran that was reached in July 2015G, reinstating primary U.S. sanctions on the Iranian regime. In January 2020G, the United States carried out a military strike which killed a senior Iranian military commander, leading to retaliatory Iranian strikes at a US base in Iraq. Any continuation of or increase in international or regional tensions regarding Iran, including further attacks on or seizures of oil tankers which disrupt international trade, any impairment of trade flow through the Strait of Hormuz, or any military conflict, could have a destabilising impact on the Gulf region, including Saudi Arabia and its ability to export oil.

These situations have caused significant disruption to the economies of the affected countries, have given rise to increased political uncertainty across the MENA region and have had a destabilising effect on oil and gas prices. There is no certainty that extremists or terrorist groups will not escalate violent activities in the MENA region, or that any currently stable governments in the MENA region will be successful in maintaining the prevailing levels of domestic order and stability. As it is not generally possible to predict the occurrence or impact of events or circumstances, such as war, hostilities or diplomatic rifts, no assurance can be given that the Bank would be able to sustain the profitable operation of its business if adverse political events or circumstances impacting the MENA region were to occur.

Prospective investors should also note that the Group's business and financial performance could be adversely affected by political, economic or related developments outside the MENA region because of inter-relationships within the global financial markets. Moreover, there is no certainty that the governments of the countries to which the Group is particularly exposed will not implement restrictive fiscal or monetary policies or regulations, including changes with respect to interest rates and new legal interpretations of existing regulations, any of which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group is exposed to the credit risk of borrowers and other counterparties due to its financing and investment activities, which could give rise to material losses in future periods

Credit risk arising from adverse changes in the credit quality and recoverability of financing, securities and amounts due from counterparties are inherent in a wide range of the Group's businesses, principally in its financing and investment activities. Credit risk could also arise from a general deterioration in local or global economic conditions, or from systemic risks within the financial systems in which the Group operates. In particular, the Group is exposed to the risk that its counterparties may not meet their obligations in respect of financing advanced by the Group and that the collateral (if any) securing the financing advanced may be insufficient, each of which could:

- affect the recoverability and value of the Group's assets;
- result in an increase in non-performing financing; and
- require an increase in the Group's provisions for the impairment of financing and other financial assets.

As at 30 June 2022G, the Group's financing, net amounted to SAR 519,700.7 million, its non-performing financing amounted to SAR 3,024.8 million and its provision for financing impairment amounted to SAR 8,861.2 million.

The Group's non-performing financing coverage ratio (calculated by dividing its provision for financing impairment by its non-performing financing) was 293.0 per cent. as at 30 June 2022G. The Group's non-performing financing ratio (calculated by dividing its non-performing financing by its gross financing) was 0.57 per cent. as at 30 June 2022G.

The Group calculates its ECL in accordance with IFRS 9 rules and guidelines to cover bad and doubtful debts and impaired investments and the Group's portfolio and credit exposures are managed in accordance with the relevant credit policy and customer lending classifications set by SAMA. However, as a result of adverse economic and political developments in recent years (including the impact of COVID-19 since early 2020G), adverse changes in consumer confidence levels, reduced consumer spending, volatile liquidity levels and increased bankruptcy rates, among other factors, the ability of certain of the Group's customers and counterparties to repay their financing or other obligations has been, and may continue to be, adversely affected.

If the Group experiences a higher level of customer defaults and its provisions prove to be inadequate for any reason, including because of a further economic downturn or a significant failure of its credit risk management policies and procedures, this could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Security interests provided in favour of the Group may not be sufficient to cover all losses and the Group may experience difficulty in enforcing certain types of collateral

The practice of pledging assets (such as share portfolios and real estate assets) to obtain bank financing is subject to certain limitations and administrative restrictions under Saudi Arabian law. In particular, such security may, in some cases, not be enforced without a court order. Accordingly, the value of any such collateral may decrease over time while the Group seeks to enforce it, and the time and costs associated with enforcing the collateral may also adversely affect the Group's ability to recover its financing losses in full.

The Group's financing, net, investment securities portfolio and customers' deposits are concentrated in Saudi Arabia

The Group's financing, net and investment securities portfolio are geographically concentrated in Saudi Arabia. These portfolios together aggregated SAR 528,219.8 million, or 84.7 per cent. of the Group's total assets, as at 31 December 2021G. As at 31 December 2021G, 97.7 per cent. of the Group's net financing and 91.2 per cent. of its investments, net were based in Saudi Arabia.

The Group's customer deposits aggregated SAR 512,072.2 million, or 92.0 per cent. of its total liabilities, as at 31 December 2021G. These deposits are principally sourced in Saudi Arabia.

Accordingly, any deterioration in general economic conditions in Saudi Arabia or any failure by the Group to effectively manage its geographic risk concentrations could have a more significant adverse effect on the Group's business than on that of a more diversified bank. See "*—The Group's operations and assets are principally located in Saudi Arabia and, accordingly, the Group is exposed to general economic conditions in Saudi Arabia*" above and "*—The Group operates in a region that is subject to ongoing political and security concerns" above.*

The Group has significant customer and sector concentrations

Consumer financing accounted for SAR 369,787.1 million, or 80.5 per cent. of the Group's financing, net, as at 31 December 2021G. Of the remaining, 19.5 per cent., SAR 32,610.1 million, or 7.1 per cent. of the Group's financing, net, was advanced to entities operating in the industrial sector and SAR 32,404.2 million, or 7.1 per cent. of the Group's financing, net (before 12 month and lifetime ECL not credit impaired), was advanced to entities operating in the commercial sector.

Within its financing and investment securities portfolios, the Group's exposure to the Government and quasi-Government entities accounted for 14.9 per cent. of its financing, net and 80.1 per cent. of its investments, net as at 31 December 2021G. The financial condition and ongoing profitability of Government-controlled or Government-related entities largely depends upon Government spending and policy. The Group is therefore exposed to shifts in Government spending and policy and the impact of such shifts on the level of economic activity in Saudi Arabia and in turn, on the Group's Government-related customers, over which it has no control. The Group's failure to adequately foresee and assess any such shifts may have an adverse effect on its business, results of operations, financial condition and prospects.

Concentrations in the corporate loan/financing receivables portfolio of the Group subjects it to risks from default by its larger borrowers, from exposure to particular industry sectors and from the withdrawal of any large deposits. The loans and receivables portfolio of the Group shows industry and borrower concentration.

As a result, a material weakening in the credit quality of, or a default by, any one or more of the Group's large financing counterparties or issuers of debt securities, or any factors which negatively impact any of the sectors to which the Group has significant exposure, could result in the Group having to make significant additional ECL provisions and experiencing reduced gross financing and investment income.

Sector specific factors might include:

- low levels of economic growth or a recession in Saudi Arabia which, particularly if coupled with increased levels of unemployment or other factors constraining consumer income, could materially adversely impact the ability of the Group's retail customers to repay their financing;
- prevailing low oil and gas prices which could reduce the liquidity of the Group's Government and quasi-Government borrowers, particularly those that operate in the oil and gas sector or provide products and services to that sector; and
- a significant decline in real estate values which could weaken the credit quality of the Group's construction and real estate borrowers, and could also reduce the value of the real estate collateral which the Group holds.

The Group also has a high concentration of customers' deposits from large institutional depositors. The withdrawal or non-renewal of the Group's customers' deposits by any one or more of its material depositors (including Government-related depositors) could require the Group to obtain replacement funding from other sources which may not be readily available or may be significantly more expensive, which could reduce the Group's margins and adversely impact its operating income and profitability. See "*–The Group is subject to the risk that liquidity may not always be readily available*" below.

The Group has significant credit-related contingent liabilities and commitments that may lead to potential losses

As part of its normal banking business, the Group issues letters of guarantee, letters of credit and acceptances which are accounted for off the Group's balance sheet until such time as they are actually funded or cancelled. In addition, the Group makes irrevocable commitments to extend credit to its customers. Although these commitments are contingent, they nonetheless subject the Group to both credit and liquidity risks. As at 30 June 2022G, the Group had SAR 30,788.6 million in contingent liabilities and commitments outstanding, equal to 5.6 per cent. of its combined financing, net and contingent liabilities and commitments.

Although the Group anticipates that only a portion of its obligations in respect of these commitments will be triggered and funds itself accordingly, the Group may need to make payments in respect of a greater portion of such commitments, particularly in cases where there has been a general deterioration in market conditions. This could result in the Group needing to obtain additional funding, potentially at relatively short notice, which may not be readily available or may be significantly more expensive, which could reduce the Group's margins and adversely impact its operating income and profitability.

The Group could be adversely affected by the soundness or the perceived soundness of other financial institutions and counterparties

Given the high level of interdependence between financial institutions that became most evident during the global financial crisis of 2008G to 2010G, the Group is subject to the risk of deterioration in the commercial and financial soundness, or perceived soundness, of other financial institutions. Within the financial services industry, the default of any one institution could lead to significant losses, and potentially defaults, by other institutions. As was experienced in 2008G and 2009G, concerns about, or a default by, one institution could also lead to significant liquidity problems, losses or defaults by other institutions, because the commercial and financial soundness of many financial institutions is closely related as a result of their credit, trading, clearing or other relationships. Even the perceived lack of creditworthiness of, or questions about, a counterparty may lead to market-wide liquidity problems and losses or defaults by the Group or other institutions. This risk, often referred to as "systemic risk", may also adversely affect other financial intermediaries, such as clearing agencies, clearing houses, securities firms and exchanges, with whom the Group interacts on a daily basis. Systemic risk, should it materialise, could have a material adverse effect on the Group's ability to raise new funding and on its business generally.

The Group is subject to the risk that liquidity may not always be readily available

The Group is exposed to the risk that it will be unable to meet its obligations, including funding commitments, as they become due as a result of maturity mismatches between its assets and liabilities. If the Group's cash flow from its operations is not sufficient to meet its short- and medium-term contractual and contingent payment obligations when they fall due, it could experience liquidity issues, even if it continues to receive new customers' deposits and proceeds from new financings or future revenue streams. Such liquidity mismatches could also arise if there is an unexpected outflow of customers' deposits, if there is a material decline in the value of the Group's liquid securities portfolio or if the Group is unable to secure short-term funding or sell assets to bridge any such funding gap. This risk is inherent in banking operations and can be heightened by a number of enterprise-specific factors, including over-reliance on a particular source of funding (including, for example, customers' demand deposits or short-term and overnight funding), changes in credit ratings or market-wide phenomena such as market dislocation and major disasters. Credit markets worldwide experienced a severe reduction in liquidity in the final quarter of 2008G and the first half of 2009G. Since then, financial institutions have continued to experience periods of reduced liquidity.

The perception of counterparty risk between banks has also increased significantly since the final quarter of 2008G, which has led at times to reductions in certain traditional sources of liquidity, such as the fixed income securities markets, asset sales and redemption of investments. The Group's access to these traditional sources of liquidity may be restricted or available only at a higher cost and there can be no assurance that the Government will provide any support to the Saudi Arabian banking sector in the future. See "*—There are no third-party guarantees or other assurances of Government support*" below.

In addition, uncertainty or volatility in the capital and credit markets may limit the Group's ability to refinance maturing liabilities with long-term funding or may increase the cost to the Group of such funding. The Group's access to any additional financing it may need will depend on a variety of factors, including market conditions, the availability of credit generally and to borrowers in the financial services industry specifically, and the Group's financial condition, credit ratings and credit capacity.

The Group meets a significant portion of its funding requirements through short-term funding sources, primarily in the form of customers' demand deposits. In the past, such customers' deposits have been a stable source of funding; however, the availability of customers' demand deposits is subject to fluctuation due to factors outside the Group's control, including possible loss of consumer confidence and competitive pressures, and this could result in a significant outflow of deposits within a short period of time or may cause the Group to increase the return paid on its deposits to ensure that it retains sufficient deposits. As at 31 December 2021G, 73.2 per cent. of the Group's customers' deposits did not have a fixed maturity although, as is typical in the Saudi Arabian banking industry, these deposits have generally proved to be sticky in nature and a stable source of funding based on historical behaviour analysis. Nevertheless, they are effectively repayable on demand. In addition, a further 14.6 per cent. of the Group's customers' deposits were due to mature within three months and a further 11.0 per cent. were due to mature between three months and one year. The Group may experience outflows of deposits at times when liquidity is constrained generally in Saudi Arabia or when its major depositors experience short- or longer-term liquidity requirements. Particularly if international oil and gas prices experience a sharp fall or remain low for a prolonged period, the Group's large depositors (including the Government and quasi-Governmental depositors) may start to withdraw part or even all of their deposits with it.

Although the Bank has accessed wholesale funding markets (through bilateral or syndicated loans and the international bond markets) in order to diversify and increase the maturity of its funding sources, these borrowings have not eliminated its contractual asset-liability maturity gaps.

In addition, the Group's deposits are geographically concentrated and the Group is reliant on certain large deposits from a limited group of customers. See "*—The Group's financing, net, investment securities portfolio and customers' deposits are concentrated in Saudi Arabia*" and "*—The Group has significant customer and sector concentrations*".

If a substantial portion of the Group's depositors, or any of its largest depositors, fail to roll over short-term time deposits upon maturity or withdraw their demand deposits, the Group's liquidity and financial position could be adversely affected and it may be required to seek other sources of funding from more expensive sources or may have to sell, or enter into sale and repurchase or securitisation transactions over, certain of its assets to meet its funding requirements. No assurance can be given that the Group will be able to obtain additional funding as and when required or at prices that will not affect its ability to compete effectively and, if the Group is forced to sell assets to meet its funding requirements, it may suffer material losses as a result.

In extreme cases, if the Group is unable to refinance or replace such deposits with alternative sources of funding to meet its liquidity needs, through deposits, the interbank markets, the international capital markets or through asset sales, this could have a material adverse effect on its business generally and could, potentially, result in its insolvency.

The Group could be adversely affected by market risks

The Group could be adversely affected by market risks that are outside its control, including, without limitation, volatility in benchmark interest rates, prices of securities or commodities and currency exchange rates. In particular, an increase in benchmark interest rates generally may decrease the value of the Group's fixed-income financing and securities and may increase the Group's funding costs. In addition, fluctuations in benchmark interest rates may result in a pricing gap between the Group's rate-sensitive assets and liabilities. Benchmark interest rates are sensitive to many factors beyond the Group's control, including the policies of central banks, such as SAMA and the U.S. Federal Reserve, political factors and domestic and international economic conditions.

Changes in benchmark interest rate levels and spreads may also affect the Group's future cash flows (by adversely impacting the margin realised between the Group's financing and investment activities and its funding costs). Changes in sukuk, equity and commodity prices may also affect the values of the Group's investment securities.

Although the Group monitors profit and cost rates with respect to its assets and liabilities and seeks to match its profit and cost rate positions, rate movements may lead to mismatches between the rates on its profit-earning assets and cost-bearing liabilities which, in turn, may adversely affect the Group's net financing and investment income. In particular, the Group provides consumer financing and real estate financing on a fixed profit rate basis over the term of the advance (which, as at 30 June 2022G, was for an average of 43 months for personal finance and 215 months for real estate finance). The Group's funding, particularly its short-term funding (see "*—The Group is subject to the risk that liquidity may not always be readily available*" above) is more exposed to changes in market conditions. If the Group's cost of funding increases and it is not able to pass the increased costs on to all or a significant portion of its existing financing customers in a timely manner or at all due to market, competitive or other conditions, this could have a material adverse effect on its business, results of operations, financial condition or prospects.

The Group is also exposed to the effects of fluctuations in foreign currency exchange rates on its financial position and cash flows.

This risk includes the possibility that the value of a foreign currency asset or liability will change due to changes in currency exchange rates as well as the possibility that the Group may have to close out any open position in a foreign currency at a loss due to an adverse movement in exchange rates. The Group attempts to match the currencies of its assets and liabilities and open currency positions are maintained within the limits set by SAMA. However, where the Group is not so hedged, it is exposed to fluctuations in foreign exchange rates and any such hedging activity may not in all cases protect the Group against such risks.

The Group enters into derivative transactions, such as Islamic foreign exchange agreements, as part of its business, in order to manage foreign exchange risks. The Group also offers derivative hedging products to its clients. As at 30 June 2022G, the Group's derivative contracts had a notional amount of SAR 32,195.7 million and a net positive fair value of SAR 699.5 million. There is no assurance that the Group's derivative contracts will be successful in mitigating its interest rate and foreign exchange rate exposures or that the Group will not experience significant losses on its derivatives contracts from time to time.

Adverse movements in benchmark interest and foreign exchange rates may also adversely impact the revenue and financial condition of the Group's depositors, borrowers and other counterparties which, in turn, may impact the Group's deposit base and the quality of its credit exposures to certain borrowers and other counterparties. Ultimately, there can be no assurance that the Group will be able to protect itself from any adverse effects of a currency revaluation or future volatility in benchmark interest rates or currency exchange rates or from a significant change in the prices of its securities.

The Group's risk management policies, systems and procedures may leave it exposed to unidentified or unanticipated risks

There can be no assurance that the Group's risk management and internal control policies and procedures will adequately control, or protect it against, all credit, liquidity, market, operational and other risks. In addition, certain risks may not be accurately quantified by the Group's risk management systems.

Some of the Group's methods of managing risk are based upon the use of historical market data which, as evidenced by events caused by the global financial crisis, may not always accurately predict future risk exposures which could be significantly greater than historical measures indicate. In addition, certain risks could be greater than the Group's empirical data would otherwise indicate.

Other risk management methods depend upon evaluation of information regarding the markets in which the Group operates, its clients or other matters that are publicly available or information otherwise accessible to it. This information may not be accurate, complete, up to date or properly evaluated in all cases. Any material deficiency in the Group's risk management or other internal control policies or procedures may expose it to significant losses as a result of unidentified credit, liquidity, market or operational risks, should they occur.

The Group's risk management techniques may not be consistently implemented or fully effective in mitigating its exposure in all market environments or against all types of risk, including risks that are unidentified or unanticipated. Investors should note that any failure by the Group to identify and/or adequately control these risks, including as a result of any failure to successfully implement new risk management policies, systems and procedures in the future, may have a material adverse effect on the Group's reputation, business, results of operations, financial condition or prospects.

The Group is exposed to operational risk which could result in damage to its reputation as well as financial losses

The Group is exposed to a wide range of operational risks, including those arising from external events and natural disasters or from process error (including failure to document transactions properly or to obtain proper internal authorisation), fraud, failure to comply with regulatory requirements and conduct of business rules, systems and equipment failure (including in particular information technology ("**IT**") related failures), inadequate customer services protocols, inadequate employee skills and performance, poor product development and maintenance, unauthorised activities and inadequate security and physical protection. Any losses arising from the materialisation of such risks may have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

The Group's employees could engage in misrepresentation, misconduct or improper practice that could expose the Group to direct and indirect financial loss and damage to its reputation. Such practices may include embezzling clients' funds, engaging in corrupt or illegal practices to originate further business, intentionally or inadvertently releasing confidential information about clients or failing to follow internal procedures. It is not always possible to detect or deter these types of misconduct, and the precautions which the Group takes to detect and prevent such misconduct may not be effective in all cases. There can be no assurance that measures undertaken to combat these types of misconduct will be successful. Any such actions by employees could expose the Group to financial losses resulting from the need to reimburse clients, co-investors or other business partners who suffered loss or as a result of fines or other regulatory sanctions, and could damage the Group's reputation.

The Group is dependent on its IT systems and any disruption to these systems could materially disrupt the Group's business

The Group depends on its IT systems to process a large number of transactions on an accurate and timely basis, and to store and process substantially all of the Group's business and operating data. The proper functioning of the Group's financial control, risk management, credit analysis and reporting, accounting, customer service and other IT systems, as well as the communication networks between its branches and main data processing centres, are critical to the Group's business and ability to compete effectively. The Group's business activities would be materially disrupted if there is a partial or complete failure of any of the IT systems or communications networks. Such failures can be caused by a variety of factors some of which are outside the Group's control, including natural disasters, extended power outages, computer viruses and other external electronic attacks as discussed under "*—The Group's business is dependent on its IT systems which are subject to potential cyber-attack*" below. The proper functioning of the Group's IT systems also depends on accurate and reliable data and other system input, which are subject to human error. Any failure or delay in recording or processing the Group's transaction data could subject it to claims for losses and regulatory fines and penalties. There can be no assurance that the Group's IT safeguards will be fully effective in the event of a disaster or that they will protect the Group from all losses that could occur.

The Group's business is dependent on its IT systems which are subject to potential cyber-attack

In common with other financial institutions based in Saudi Arabia, the wider GCC and globally, the threat to the security of the Group's information and customer data from security breaches and cyber-attacks presents a real and growing risk to the Group's business. Activists, rogue states and cyber criminals are amongst those targeting IT systems around the world. Risks to technology and cyber-security evolve and change rapidly and require continued focus, monitoring and investment in preventative measures. Given the increasing sophistication and scope of potential cyber-attack, it is possible that future attacks may lead to significant breaches of security. A failure to adequately manage cyber-security risk and continually monitor, review and update current processes in response to new threats could have a number of adverse effects on the Group, including disruption to its business, unauthorised disclosure of confidential information, significant financial and/or legal exposure and damage to its reputation.

The Group may face difficulties raising capital

As at 30 June 2022G, the Group's tier 1 capital adequacy ratio (calculated according to Basel III standards for Pillar 1) was 17.9 per cent. and its total capital adequacy ratio was 19.0 per cent. The Group has been designated as a domestically systemic important bank ("**D-SIB**") with an additional common equity tier 1 D-SIB surcharge of 0.5 per cent. Accordingly, the Group's total minimum Pillar 1-based capital requirement as at 30 June 2022G was 11.0 per cent., which also included a capital conservation buffer of 2.5 per cent.

The Group is subject to the risk of having insufficient capital resources to meet the minimum regulatory capital requirements applicable to it. Under Basel III, capital requirements are inherently more sensitive to market movements than under previous regimes and capital requirements will increase if economic conditions or negative trends in the financial markets worsen. Any failure of the Group to maintain its minimum regulatory capital ratios could result in administrative actions or sanctions, which in turn may have a material adverse effect on the Group. In addition, a shortage of available capital might restrict the Group's opportunities for expansion.

A variety of factors affect the Group's capital adequacy levels. For example, a significant increase in lending in 2022G and beyond would be likely to reduce the Group's capital adequacy ratios and any losses experienced by it in future periods would likely have a similar effect. In addition, regulatory requirements in relation to the calculation and required levels of capital adequacy may change from time to time, including as a result of new guidelines issued by the Basel Committee on Banking Supervision and implemented by SAMA. The Group may also need to increase its capital as a result of market perceptions of adequate capitalisation levels and the perceptions of rating agencies.

If the Group requires additional capital in the future, there can be no assurance that it will be able to obtain this capital on favourable terms, in a timely manner or at all. Moreover, should its capital ratios fall close to regulatory minimum levels or its own internal minimum levels, the Group may need to adjust its business practices, including reducing the risk and leverage of certain activities. If the Group is unable to maintain satisfactory capital adequacy ratios, its credit ratings may be lowered and its cost of funding may therefore increase. Any of these factors could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

The Group is a highly regulated entity and changes to, or to the interpretation or enforcement of, applicable laws or regulations, or the failure to comply with such laws or regulations, could have an adverse impact on the Group's business

Members of the Group, including the Bank, are subject to a number of prudential and regulatory controls designed to maintain the safety and soundness of financial institutions, ensure their compliance with economic, social and other objectives and limit their exposure to risk. For example, the Law on the Treatment of Systemically Important Financial Institutions, issued on 11 December 2020G which came into effect in June 2021G (the "**SIFI Law**"), provides for the relevant regulator to determine whether a financial institution such as the Bank should be deemed to be systematically important. The Bank has been determined by SAMA to be a systemically important financial institution. The objectives of the SIFI Law include the protection of the financial system and sector in Saudi Arabia and minimising dependence on Government support by instead utilising the resources of the relevant financial institution.

The SIFI Law gives the relevant regulator the right to undertake certain protective measures to safeguard the financial system, such as the ability to amend, reduce, cancel or convert into equity the rights of bondholders or Sukukholders of the relevant financial institution, which may include the Sukukholders.

These laws, regulations and other rules may limit the activities of members of the Group and increase their cost of doing business. Changes in these laws and regulations (such as those pursuant to Basel III) and the manner in which they are interpreted or enforced may affect the Group's reserves, revenue and performance and may have a material adverse effect on the Group's business, results of operations, financial condition or prospects. In addition, a breach of regulatory guidelines could expose the Group to potential liabilities, sanctions and reputational damage. Although the Group works closely with its regulators and, in particular, continually monitors compliance with SAMA and the Authority regulations and policy, future changes in regulation, fiscal or other policies cannot be predicted and are beyond its control.

In order to carry out and expand its businesses, it is necessary for the Group to maintain or obtain a variety of licences, permits, approvals and consents from various regulatory, legal, administrative, tax and other governmental authorities and agencies. The processes for obtaining these licences, permits, approvals and consents are often lengthy, complex, unpredictable and costly. If the Group is unable to maintain or obtain the relevant licences, permits, approvals and consents, its ability to achieve its strategic objectives could be impaired.

There is also increased international scrutiny of banks operating in all markets in connection with sanctions, anti-money laundering ("**AML**"), anti-terrorist financing and other regulations, some of which are international in their operation. These laws and regulations require the Group, amongst other things, to adopt and enforce "know your customer" ("**KYC**") policies and procedures and to report suspicious and large transactions to the applicable regulatory authorities. The Group has adopted KYC and AML policies and procedures and reviews them regularly in light of regulatory and market developments. The Group's ability to comply with all such applicable laws and rules is driven by the robustness of its IT, compliance, audit and reporting systems and procedures, as well as its ability to attract and retain qualified compliance and risk management personnel. In the event of actual or alleged compliance breaches by a Group company, that company may become subject to investigation and judicial or administrative proceedings, which could result in penalties or lawsuits (including by customers) for damages, the loss of its ability to do business in the international banking market or in specific jurisdictions, the loss of its banking licence or material damage to its reputation, each of which could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

The Bank faces increasing competition which may negatively impact its results of operations

All sectors of the market for financial and banking services in Saudi Arabia are highly competitive. Based on SAMA's website, as at the date of this Base Prospectus, there were 35 commercial banks operating, or licensed to operate, in Saudi Arabia, of which 11 are incorporated in Saudi Arabia. Six are branches of banks based in countries of the GCC other than Saudi Arabia, 9 are international banks, 6 have been licensed but are yet to commence operations under their licences and 3 have been licensed as digital banks but are yet to commence operations under their licenses.

The Bank faces intensifying competition in Saudi Arabia both from new entrants to the market and from existing competitors, including Saudi National Bank which was created in early 2021G following the merger of National Commercial Bank and Samba Financial Group, which may increase pressure on the Bank to improve the range and sophistication of its products and services currently offered. Competition in its key areas of operation including, in particular, consumer financing, may limit the Bank's ability to grow its business, increase its client base and expand its operations and/or reduce or reverse its asset growth rate and profit margins on the services it provides. If the Bank experiences increasing margin pressure and rising operating expenses as the banking sector in Saudi Arabia develops and/or the Bank is not able to compete effectively and/or the Bank incurs significant additional costs as it seeks to compete effectively, these factors could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

There are no third-party guarantees or other assurances of Government support

Investors should be aware that no guarantee (implicit or explicit) has been given in relation to the financial obligations of the Bank (including in respect of the Sukuk) by the Government, the shareholders of the Bank or any other person. Further, and notwithstanding the Bank's status as a D-SIB, there can be no assurance that Government support will be available to the Bank in the event of any future crisis or economic disruption in Saudi Arabia's banking sector. Neither the Government nor any of its related entities are under any obligation to invest in, make customers' deposits with, do business with or otherwise support the Bank.

The Bank is controlled by certain principal shareholders whose interests may not be aligned with the interests of Sukukholders

The Bank's principal shareholders, acting together or with other shareholders, have the ability to significantly influence the Bank's business. If circumstances were to arise where the interests of the Bank's principal shareholders conflict with the interests of the Bank's creditors (including the Sukukholders), Sukukholders may be disadvantaged by any such conflict.

The Group's accounting principles and policies are critical to how it reports its financial condition and results of operations and require management to make estimates about matters that are uncertain

Accounting principles and policies are fundamental to how the Group records and reports its financial position and results of operations. Management must exercise judgment in selecting and applying many of these accounting policies so that they comply with IFRS-KSA and its interpretations as issued by the International Accounting Standards Board endorsed in Saudi Arabia and with the other standards and pronouncements that are endorsed by SOCPA.

Management has identified certain key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the notes to its financial statements. These are described in note 2(d) to the audited 2021G Financial Statements and include the measurement of impairment losses on financial assets and the determination of fair values of financial instruments.

A variety of factors could affect the ultimate value that is obtained either when recognising income or expenses, recovering an asset or reducing a liability. The Group has established policies and control procedures that are intended to ensure that its accounting judgments and estimates are monitored and applied consistently. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. Because of the uncertainty surrounding the Group's judgments and the estimates pertaining to these matters, no assurance can be given that the Group will not be required to make changes in accounting estimates or restate prior period financial statements in the future.

The Group's continued success depends on its ability to attract key management and qualified personnel

The Group's continued success depends, in part, on its ability to continue to attract, retain and motivate suitably qualified and experienced applicants. In 2020, the Group implemented a comprehensive new digitised system (the "**Recruitment Module**") to further improve the efficiency of the Bank's recruitment and onboarding processes. Onboarding is considered one of the most critical aspects of creating a superior candidate experience and with that, greater chance of employee retention.

The Government has introduced a number of initiatives, which require financial services entities to ensure that certain sensitive roles are held by Saudi nationals. As at 30 June 2022G, the Bank's Saudisation level was 97.4 per cent.

Any failure by the Group to manage its personnel needs successfully, including a malfunctioning of the Recruitment Module, retaining key members of its executive management team and/or recruiting new qualified personnel at a pace consistent with its growth, could impede the implementation of the Group's strategy, hinder the growth of its business and have a material adverse effect on its business, results of operations, financial condition or prospects.

The Group is exposed to reputational risks related to its operations and industry and its reputation may also be adversely affected if any of its Islamic finance products are deemed to be non-Shari'a compliant

The Group depends on the trust and confidence of its customers to succeed in its business. The Group is exposed to the risk that litigation, misconduct, operational failures, negative publicity and press speculation, whether or not valid, will harm its reputation. The Group's reputation may also be adversely affected by the conduct of third parties over whom it has no control, including entities to which it has advanced financing or in which it has invested. For example, if one of the Group's financing counterparties becomes associated with financial scandals or widely publicised improper behaviour, the Group's own reputation may be affected. The Group is also exposed to adverse publicity relating to the financial services industry as a whole. Financial scandals unrelated to the Group or questionable ethical conduct by a competitor may taint the reputation of the industry and affect the perception of investors, public opinion and the attitude of regulators. Any damage to the Group's reputation could cause existing customers to withdraw their business and lead potential customers to be reluctant to do business with the Group.

The Bank is an Islamic financial institution. All of these products are reviewed and approved by the Al Rajhi Bank Internal Shari'a Supervision Committee. In doing so, each member of the Al Rajhi Bank Internal Shari'a Supervision Committee must employ his interpretative efforts in accordance with methodological rules and/or principles of Islamic jurisprudence. While various Islamic schools of thought agree on the general methodology and the basic principles of interpretation, they may disagree on particular rules. If any issues are called into question relating to the extent of Shari'a compliance of Shari'a authority-approved products offered by the Bank, the Bank's reputation could be negatively affected which may in turn have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

A negative change in the Bank's credit ratings could adversely affect the Group's ability to access the debt capital markets and may increase its borrowing costs

The Bank's credit ratings, which are intended to measure its ability to meet its debt obligations as they mature, are an important factor in determining the Group's cost of borrowings.

The Bank's long-term corporate ratings were assessed "BBB+" with a positive outlook by S&P on 15 April 2022G, "A-" with a stable outlook by Fitch on 14 February 2022G, "A1" with a stable outlook by Moody's on 19 May 2022G and "A+" with a stable outlook by Capital Intelligence on 17 May 2022G. A credit rating is not a recommendation to buy, sell or hold securities. Ratings may be subject to revision or withdrawal at any time by the assigning rating organisation and each rating should be evaluated independently of any other rating.

There can be no assurance that any of the Bank's ratings will remain the same in the future. Any actual or anticipated changes in the Bank's credit ratings may affect the market value of the Sukuk. A downgrade of the Bank's credit ratings (or a negative change of outlook) may increase the Group's cost of borrowing and may also limit the Bank's or any of its subsidiaries' ability to raise capital and funding, each of which could adversely affect the Group's business, results of operations, financial condition and prospects.

According to each of Moody's and Capital Intelligence, the Bank's ratings depend on Saudi Arabia's sovereign ratings and the potential weakening of Saudi Arabia's capacity to provide support to the Bank.

For example, Moody's notes that factors which could lead to a downgrade of the Bank's rating include the lowering of the sovereign rating and a potential re-assessment of the Government's willingness to provide support and Capital Intelligence notes that a downgrade of the Bank's rating would require a downgrade of the sovereign or a change in Capital Intelligence's view of the Government's willingness to provide support. S&P also states that its assessment of the Bank's intrinsic creditworthiness is one notch below S&P's local currency sovereign rating on Saudi Arabia.

Saudi Arabia has been assigned the following credit ratings: A1 (stable outlook) by Moody's, A (stable outlook) by Fitch, A- (stable outlook) by S&P and "A+" (stable outlook) by Capital Intelligence. As a result, if any of the Bank's rating agents were to reduce their ratings, or change the outlook of their ratings, on Saudi Arabia, this could also result in the relevant rating agent lowering its rating, or changing the outlook of its rating, on the Bank. See "*—There are no third-party guarantees or other assurances of Government support*" above.

RISKS RELATING TO THE MARKET, INDUSTRY AND REGULATORY ENVIRONMENT

Saudi Arabia's economy is highly dependent on its oil revenue

Saudi Arabia's economy is highly dependent upon its oil revenue. According to OPEC data, as at 31 December 2020G, Saudi Arabia had approximately 17.9 per cent. of proven global crude oil reserves while, according to preliminary data produced by GASTAT, oil related activities accounted for 22.9 per cent. of Saudi Arabia's GDP at current prices in 2020G. Oil revenues accounted for an estimated 52.8 per cent. and 64.1 per cent. of total Government revenues in the fiscal years 2020G and 2019G, respectively. Oil exports accounted for 68.7 per cent. and 76.6 per cent. of Saudi Arabia's total exports by value in the years ended 31 December 2020G and 2019G, respectively.

As oil is Saudi Arabia's most important export, any change in oil prices affects various macroeconomic and other indicators, including, but not limited to, GDP, Government revenues, balance of payments and foreign trade. According to the OPEC website, the price of the OPEC Reference Basket has fluctuated significantly in recent years. Since July 2014G, when the monthly average OPEC Reference Basket price per barrel was U.S.$107.89, crude oil prices fell sharply by approximately 75 per cent. to a monthly average price of U.S.$26.50 in January 2016G. Although crude oil prices have recovered in recent years, with the monthly average price being U.S.$56.94 per barrel in December 2018G and U.S.$66.48 per barrel in December 2019G, 2020G saw significant volatility, with the average price of the OPEC Reference Basket falling from U.S.$65.11 per barrel in January 2020G to U.S.$16.52 per barrel as at 1 May 2020G, before recovering to an average price of U.S.$41.47 per barrel for the year ended 31 December 2020G (when it was significantly impacted by COVID-19 and other events) and U.S.$69.89 in 2021G. The Russian invasion of Ukraine in February 2022G and concerns regarding oil supply then led to sharp rises in oil prices increasing the daily price of the OPEC Reference Basket on 9 March 2022G to U.S.$128.27 per barrel. The average price of the OPEC Reference Basket for the week ending on 10 June 2022G was U.S.$121.59. The monthly price per barrel of Arabian Light Crude Oil has also moved in line with these trends.

Separately, it is not possible to predict what impact acts of sabotage or any other incident relating to critical oil and gas infrastructure in Saudi Arabia (or any prolonged period of reduced production following any such incident or act) will have on the price of, and global demand for, oil and gas and any corresponding impact on Saudi Arabia's hydrocarbon exports, Government revenues and Saudi Arabia's economy as a whole.

Factors such as the inability of OPEC and its allies to efficiently reach an agreement on oil production levels have had a significant impact on the price of oil. In early March 2020G, OPEC officials proposed a plan to OPEC Plus to reduce global oil production by 1.5 per cent. However, the parties were unable to reach agreement and the three-year partnership between OPEC and major non-OPEC providers was terminated as a result. This also resulted in OPEC Plus failing to extend an agreement of cutting 2.1 million barrels per day that was set to expire at the end of March 2020G. On 7 March 2020G, Saudi Arabia announced that it would raise oil output and discount its oil price in April 2020G. However, in early April 2020G, OPEC Plus announced that it had reached an agreement to cut production by 9.7 million barrels a day. Nevertheless, this action failed to sufficiently support the oil market with prices falling in the days following that announcement. This agreement was extended until July 2020G, beyond which a gradual easing of the cuts was scheduled. In January 2021G, OPEC and Russia agreed to a slight easing of oil production cuts by 500,000 barrels per day and in September 2021G the OPEC Reference Basket reached a monthly average of U.S.$73.88. However, there can be no assurance that the agreement will be maintained by all relevant parties or achieve its stated goals or what effect the agreement will have on oil prices in the short to medium term.

Other factors that may affect the price of oil include, but are not limited to:

- economic and political developments in oil-producing regions, particularly in the Middle East;
- global and regional supply and demand, and expectations regarding future supply and demand, for oil products;
- the impact of international environmental regulations designed to reduce carbon emissions;
- other actions taken by major crude oil-producing or consuming countries;
- prices and availability of alternative fuels and new technologies using alternative fuels;
- the impact of pandemic diseases, such as COVID-19; and
- global weather and environmental conditions.
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If the international prices for hydrocarbon products were to materially fall from their current levels and remain at a lower price for a significant period of time, this could have a material adverse effect on the Kingdom's economy which, in turn, could have a material adverse effect on the Group's business, financial condition and results of operations.

There can be no assurance that the Government's efforts to diversify Saudi Arabia's economy will be successful and such efforts may have undesirable effects

In recent years the Government has invested heavily in diversifying Saudi Arabia's economy to reduce its reliance on oil revenues. Measures taken include the National Transformation Program 2020G and Saudi Vision 2030. Through the Saudi Vision 2030, the Government is seeking to implement far-reaching reforms of Saudi Arabia's economy and society. Some of the measures envisaged include the greater participation of Saudi citizens in the private sector, a decrease in certain subsidies historically available to the fuel and energy sectors, as well as the imposition of new taxes and administrative fees. The implementation of these and other similar measures may be a lengthy and complex process, and there can be no assurance that these measures will not have unexpected or undesirable consequences in Saudi Arabia. The implementation of these and other similar measures, in whole or in part, may have a disruptive effect and consequently may have an adverse effect on Saudi Arabia's economic and financial condition.

There can be no assurance that the increased contribution of the non-oil sector to Saudi Arabia's economy will continue in the future or that the non-oil sector will continue to grow at a sufficient extent to achieve effective and adequate diversification of the economy. Furthermore, there can be no assurance that the Government will be able to successfully implement Saudi Vision 2030, and/or the subset of Vision Realization Programmes (a series of programmes which aim to achieve the strategic objectives of the Saudi Vision 2030) in their current form, or that their implementation will be in line with the timelines originally set out.

Any amendment to the scope or timing of the implementation of the objectives of Saudi Vision 2030 and/or the subset of Vision Realization Programmes, in whole or in part, may result in the Government being unable to achieve the diversification of the economy and its sources of revenue to the required extent. Additionally, to the extent that a prolonged or further decline in oil prices has an adverse impact on the Government's revenues, this may in turn adversely impact the Government's ability to invest in the diversification of Saudi Arabia's economy. Any failure to diversify Saudi Arabia's economy may result in its economy remaining susceptible to the risks associated with the oil sector. Any material deterioration in Saudi Arabia's economic and financial condition would be likely to also negatively affect its banking sector and could have a material adverse effect on the Group.

A slowdown in the economies of Saudi Arabia's key trading partners could adversely affect its economy

Saudi Arabia has strong trading relationships with many countries, particularly major oil-importing economies such as China, the United States, Japan, South Korea, India and a number of states of the European Union. To the extent that there is a slowdown in the economies of any of these countries, this may have a negative impact on Saudi Arabia's foreign trade and balance of payments, which could have a material adverse effect on its economic and financial condition.

Any sustained market and economic downturn or geopolitical uncertainties in the United States, China or any of Saudi Arabia's other key trading partners may exacerbate the risks relating to Saudi Arabia's trade with those countries which, in turn, may have a negative impact on Saudi Arabia's foreign trade and balance of payments. In particular, demand for crude oil and consequently the price of crude oil may be adversely affected and this may have a material adverse effect on Saudi Arabia's economic and financial condition.

Any material deterioration in Saudi Arabia's economic and financial condition would be likely to also negatively affect its banking sector and could have a material adverse effect on the Group.

Saudi Arabia's and other GCC legal systems continue to develop and this may create an uncertain environment for investment and business activity

Saudi Arabia and many of the other GCC countries are in various stages of developing their legal and regulatory institutions that are characteristic of more developed markets. As a result, procedural safeguards as well as formal regulations and laws may not be applied consistently.

The courts, judicial committees and adjudicatory bodies in Saudi Arabia (the "**Saudi Courts**") have a wide discretion as to how laws and regulations are applied to a particular set of circumstances. There is no doctrine of binding precedent in the Saudi Courts, decisions of the Saudi Courts are not routinely published and there is no comprehensive up-to-date reporting of judicial decisions. Bankruptcy procedures also remain largely untested. In some circumstances, it may not be possible to obtain the legal remedies provided under Saudi Arabian law in a timely manner. As a result, the outcome of any legal disputes in Saudi Arabia may be uncertain.

As the legal environment remains subject to continuous development, investors in Saudi Arabia and the other GCC countries may face uncertainty as to the security of their investments. Any unexpected changes in the legal systems in Saudi Arabia and the other GCC countries may have a material adverse effect on the rights of Sukukholders or the investments that the Group has made or may make in the future, which may in turn have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

Saudi Arabia's banking regulatory environment is continually evolving and may change in a manner that is adverse to the Group

The Bank falls under the supervision of SAMA, which regulates the banking sector in Saudi Arabia. The Bank operates in compliance with SAMA rules, regulations and guidelines, which from time to time may be amended in accordance with economic and political developments in the country. SAMA operates to a standard expected of international regulators and generally follows the recommendations of the Basel Committee. The Group's business could be directly affected by future changes to Saudi Arabia's banking regulatory policies, laws and regulations, such as those affecting the extent to which the Bank can engage in specific businesses, as well as changes to other governmental policies. The Bank cannot provide any assurance that such changes will not adversely affect the Group's business, results of operations, financial condition or prospects nor that it will be able to adapt to all such changes on a timely basis. Failure to comply with the rules, regulations and guidelines of SAMA could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

The Bank is subject to labour force regulations in Saudi Arabia and any failure to comply with those regulations could have a material adverse effect on the Group

Companies in Saudi Arabia are in general encouraged by the Ministry of Human Resources and Social Development to ensure that Saudi nationals are prioritised with regards to employment opportunities with strong career progression and development programmes. The Bank has a talent acquisition, learning and development strategy designed to attract and retain Saudi nationals to comply with the relevant regulations, although, in common with other corporate entities in Saudi Arabia, the Bank experiences competition for, and may occasionally find it difficult to recruit and retain, qualified Saudi nationals. Any failure by the Bank to fill specific regulated roles with Saudi nationals could cause the Bank to be questioned by the regulator for non-compliance with these requirements which could, in turn, have an adverse effect on the Bank's reputation.

In addition, in recent years, Saudi Arabia has tightened controls on the employment of foreign workers, required increased localisation of the operations of foreign investors in Saudi Arabia and introduced amendments to labour laws. There is no guarantee that those changes will not have an impact on the Bank's customers in general, or customers in any particular segment of business which comprises a significant proportion of the Group's credit exposure. If any changes in Saudi Arabia's labour laws negatively affect the Group's borrowers, this could reduce the ability of those borrowers to meet their payment obligations to the Group. The occurrence of any such effect with respect to a major borrower, or a group of borrowers, could have a substantial negative effect on the Group.

There is uncertainty regarding the future development of Saudi Arabia's banking sector

The growth rate of Saudi Arabia's banking sector may not be as high and sustainable as it has been in previous years. While it is expected that the banking sector will expand and its number of customers may increase with the growth of Saudi Arabia's economy, population and demographic changes and potential legal and other reforms, the impact on Saudi Arabia's banking sector of certain trends and events, such as the pace of economic growth in Saudi Arabia, is currently not clear. In addition to the potential impact due to COVID-19, lower oil prices in 2020G exerted fiscal and economic pressures on Saudi Arabia's economy and, in turn, the private sector, including the banking sector.

Challenging operating conditions, such as those experienced in 2020G in particular, may result in a reduction in customers' deposits, and a rise in the levels of non-performing financing while limiting financing growth. Lending opportunities may diminish with higher levels of sovereign debt issuance. Net income may also decrease due to the increase in total operating expenses on account of higher impairment charges. Credit conditions for the banks may deteriorate leading to increased non-performing financing, credit losses and a decline in profitability. Any slowdown in the growth and development of the banking sector in Saudi Arabia will have an adverse impact on the Group's own growth and, in turn, on its business, results of operations, financial condition or prospects.

Any alteration to, or abolition of, the foreign exchange "peg" of the Saudi riyal or other regional currencies at a fixed exchange rate to the U.S. dollar will expose the Group to U.S. dollar foreign exchange movements against the Saudi riyal or other such currencies

The Group maintains its accounts and reports its results in Saudi riyal. The Saudi riyal has been pegged to the U.S. dollar since 1986G. In addition, the following oil-producing GCC countries have their currencies pegged to the U.S. dollar: Qatar, the UAE, Oman and the Kingdom of Bahrain. From time to time, oil-producing countries with currencies that have been traditionally pegged to the U.S. dollar have faced pressure to de-peg and, in certain cases, have de-pegged their currencies. For example, Kazakhstan de-pegged the Kazakhstani tenge from the U.S. dollar on 20 August 2015G, which was followed on 21 December 2015G by the removal of the U.S. dollar peg against the Azerbaijani manat.

There is a risk that additional countries may choose to unwind their existing currency peg to the U.S. dollar, both in the GCC and the wider region. While the long-term impacts of such actions are uncertain, it is likely that any such de-pegged currency would face a devaluation against the U.S. dollar immediately following the removal of the peg. While it continues to be the policy of the Government and SAMA to maintain the currency peg at its existing level, there can be no assurance that future unanticipated events, including an increase in the rate of decline of the Government's reserve assets, will not lead the Government to reconsider its exchange rate policy.

Any de-pegging or re-evaluation to the current exchange rate either in Saudi Arabia or across the wider region, particularly if the de-pegging or re-evaluation is accompanied by a significant depreciation of the relevant currency against the U.S. dollar or other major currencies, could contribute to higher inflation, increase the burden of servicing external debt and damage investor confidence, resulting in capital outflows and market volatility, each of which could have a material adverse effect on Saudi Arabia's economic and financial condition. This, in turn, could also have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

The statistical data contained in this Base Prospectus should be treated with caution by prospective investors

Statistics contained in this document, including in relation to GDP, money supply, inflation and indebtedness of the Government, have been obtained from, amongst other sources, GASTAT, SAMA, the IMF and OPEC. Such statistics, and the component data on which they are based, may not have been compiled in the same manner as data provided by other sources and may be different from statistics published by third parties, reflecting the fact that the underlying assumptions and methodology may vary from source to source. There may also be material variances between preliminary, estimated or projected statistics included in this Base Prospectus and actual results, and between statistics included in this Base Prospectus and corresponding data previously published by or on behalf of the bodies listed above. Consequently, the statistical data contained in this Base Prospectus should be treated with caution by prospective investors.

RISKS RELATING TO THE SUKUK

Sukukholders' right to receive payment of the nominal amount of the Sukuk and their right to any profit will be permanently cancelled or permanently Written-down (in whole or in part) upon the occurrence of a Non-Viability Event

If in respect of any Series of Sukuk, a Non-Viability Event (as defined below) occurs at any time on or after the Issue Date of the first Tranche issued under the relevant Series and prior to the date on which the Applicable Statutory Loss Absorption Regime becomes effective in respect of the Sukuk of that Series (the "**Effective Date**"), the Aggregate Nominal Amount of the Sukuk of that Series then outstanding will be Written-down in whole or in part on a pro rata basis, in each case, as solely determined by the Financial Regulator (as defined in the Conditions).

Pursuant to a Write-down, the rights of any Sukukholder to payment of any amounts under or in respect of the Sukuk of that Series (including, without limitation, the relevant Dissolution Distribution Amount and any amounts arising as a result of, or due and payable upon the occurrence of, an Event of Default (as defined in the Conditions)) in a proportion corresponding to the relevant Write-down Amount (and any related unpaid Periodic Distribution Amounts) shall be cancelled and not restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Non-Viability Event or notice in relation thereto. Furthermore, a Write-down in full or in part of the Sukuk of a Series could occur prior to the Ordinary Shares of the Issuer absorbing losses in full. A Write-down shall not constitute an Event of Default. In cases in which a Write-down in part is required by the Financial Regulator, a Write-down may occur on one or more occasions as solely determined by the Financial Regulator.

As a result, Sukukholders will lose the entire amount or, as the case may be, a material amount, of their investment in the Sukuk in relation to a Series.

A "**Non-Viability Event**" means, in relation to a Series, that the Financial Regulator has notified the Issuer in writing that it has determined that the Issuer is, or will become, Non-Viable without:

(a) a Write-down of the Sukuk of that Series (and write-down of any of the Sukuk of any other Series or of the Issuer's other capital instruments or other obligations constituting Tier 1 Capital and/or Tier 2 Capital of the Issuer that, pursuant to their terms or by operation of law, are capable of being Written-down and/or converted into equity); or

(b) a public sector injection of capital (or equivalent support), **provided that** such injection of capital is not made (i) by a shareholder of the Issuer or (ii) on terms that are more favourable to the Issuer than those that would be accepted by private investors in comparable transactions.

The Issuer's current and future Junior Obligations or Pari Passu Obligations might not include write-down or similar features comparable to those of a Sukuk. As a result, it is possible that the Sukuk of a particular Series will be subject to a Write-down, while certain Junior Obligations and/or Pari Passu Obligations remain outstanding and continue to receive payments and, as such, Sukukholders may be subject to losses ahead of holders of certain Junior Obligations and/or Pari Passu Obligations.

The circumstances triggering a Write-down are unpredictable

The occurrence of a Non-Viability Event is inherently unpredictable and depends on a number of factors, many of which are outside of the Issuer's control. The occurrence of a Non-Viability Event is subject to, inter alia, a subjective determination by the Financial Regulator (as defined in the Conditions). As a result, the Financial Regulator may require a Write-down in circumstances that are beyond the control of the Issuer and with which the Issuer may not agree. See "*Sukukholders' right to receive payment of the nominal amount of the Sukuk and their right to any profit will be permanently cancelled or permanently Written-down (in whole or in part) upon the occurrence of a Non-Viability Event*". The exercise (or perceived likelihood of exercise) of any such power by the Financial Regulator or any suggestion of such exercise could materially adversely affect the value of the relevant Sukuk of a Series and could lead to the Sukukholders losing some or all of their investment in the relevant Sukuk of a Series.

The financial viability of the Issuer will also depend in part on decisions made by the Issuer in relation to its business and operations, including the management of its capital position. In making such decisions, the Issuer will not necessarily have regard to the interests of Sukukholders and, in particular, the consequences for Sukukholders of any such decisions and there can be no assurance in any such circumstances that the interests of the Issuer, its shareholders and the Financial Regulator will be aligned with those of the Sukukholders.

Prospective investors should also be aware that the application of a non-viability loss absorption feature as contained in Condition 10 (Write-Down at the Point of Non-Viability) has not been tested in the Kingdom and therefore uncertainty exists in its application.

The payment obligations of the Issuer under the Master Mudaraba Agreement are conditional, subordinated and unsecured obligations

Prospective investors should note that, subject to Condition 10 (Write-down at the Point of Non-Viability) (see "*Sukukholders' right to receive payment of the nominal amount of the Sukuk and their right to any profit will be permanently cancelled or permanently Written-down (in whole or in part) upon the occurrence of a Non-Viability Event*"), except upon the occurrence and continuation of any Winding-Up Proceeding and without prejudice to Condition 7 (Periodic Distribution Restrictions), the Relevant Obligations are conditional (in the case of payments of profit (other than in respect of Rab-al-Maal Final Mudaraba Profit payable on any Mudaraba End Date of each Mudaraba for a Series in the case of a Non-Payment Election (as defined below)), upon a Non-Payment Election or Non-Payment Event not having occurred), are unsecured and no collateral is or will be given by the Issuer in relation thereto.

Prospective investors should note that upon the occurrence and continuation of any Winding-Up Proceeding, the Relevant Obligations will rank: (a) subordinate and junior to all Senior Obligations but not further or otherwise; (b) pari passu with all other Pari Passu Obligations; and (c) in priority only to all Junior Obligations, as more particularly described in Condition 4.2 (Subordination). In such case, there may not be sufficient assets to satisfy the claims of the holders of the Sukukholders in full.

The Sukukholders' Agent may exercise its enforcement rights in relation to the Master Mudaraba Agreement only in the manner provided in Condition 11.2 (Winding-up, dissolution or liquidation). See also "*Risks Relating to Enforceability and Taxation in the Kingdom*".

No limitation on issuing senior securities; subordination

Other than the limitations in relation to the issue of further Additional Tier 1 Capital by the Issuer as set out in Condition 4.3 (Other Issues) which limits the circumstances in which Additional Tier 1 Capital of the Issuer can be issued that ranks senior to each Series of Sukuk, there is no restriction in the Conditions or in the terms of the Transaction Documents on the Issuer (in its capacity as Mudareb or otherwise) incurring additional financing or issuing securities or creating any guarantee or contractual support arrangement which would rank pari passu with or senior to each Series of Sukuk and the obligations of the Issuer under the Master Mudaraba Agreement (the "**Senior Obligations**"). The issue of or the creation of any such Senior Obligations may reduce the amount recoverable by the relevant Sukukholders on a winding-up of the Issuer. Accordingly, in the winding-up of the Issuer, there may not be a sufficient amount to satisfy the amounts owing to the Sukukholders. See also "*—The payment obligations of the Issuer under the Master Mudaraba Agreement are conditional, subordinated and unsecured obligations*".

Payments of Periodic Distribution Amounts may be cancelled and are non-cumulative

In respect of a particular Series of Sukuk, the Issuer may elect (any such election being a "**Non-Payment Election**"), in its sole discretion not to make payment of a Periodic Distribution Amount (in whole or in part) to Sukukholders on the corresponding Periodic Distribution Date as more particularly provided in Condition 7.2 (Non-Payment Election), except that no such election may be made in respect of the Periodic Distribution Amount payable on the date on which the Sukuk of such Series are to be redeemed in whole at the Issuer's discretion in accordance with Condition 9 (Redemption).

In addition, if a Non-Payment Event (as defined in the Conditions) occurs (which includes the case where sufficient Distributable Profits are not available in order to permit the Issuer to make the relevant payment or as a result of a breach of Applicable Regulatory Capital Requirements), the Issuer (in its capacity as Mudareb) shall be prohibited from paying Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit of that Mudaraba for a Series, as applicable, on any relevant Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be) pursuant to the Master Mudaraba Agreement, and as a result thereof the Issuer shall be prohibited from paying the relevant Periodic Distribution Amounts to the relevant Sukukholders on the corresponding Periodic Distribution Date, as more particularly provided in, Condition 7.1 (Non-Payment Event).

In relation to the paragraph above, "**Distributable Profits**" is defined in the Conditions as the Issuer's "consolidated retained earnings and reserves, including general reserves, special reserves and statutory reserves (to the extent not restricted from distribution by applicable law), after the transfer of any amounts to non-distributable reserves, all as calculated by the Issuer based on its most recent consolidated financial statements, or any equivalent or successor term from time to time as prescribed by the Capital Regulations". As at 30 June 2022, the Issuer's Distributable Profits amounted to SAR 8,560 million.

If any amount of Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit or Periodic Distribution Amount in respect of a Mudaraba for a Series is not paid as a consequence of a Non-Payment Election or a Non-Payment Event then, from the date of such Non-Payment Election or Non-Payment Event (the "**Dividend Stopper Date**"), the Issuer will be prohibited from declaring or paying certain distributions, dividends or other payments (other than to the extent that any such distributions, dividends or other payments are declared before such Dividend Stopper Date, and excluding securities the terms of which do not at the relevant time enable the Issuer to defer or otherwise not to make such payments) and from redeeming, purchasing, cancelling, reducing or otherwise acquiring Other Common Equity Tier 1 Instruments or securities ranking as to the right of payment of capital, junior to or pari passu with the Relevant Obligations (excluding securities the terms of which stipulate: (i) any mandatory redemption in accordance with its terms; or (ii) any conversion into, or exchange for, ordinary shares of the Issuer), only to the extent such restriction on redemption, purchase, cancellation, reduction or acquisition is permitted under the relevant regulatory criteria for Tier 1 Capital applicable from time to time, in each case unless or until the next following payment of Rab-al- Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit following the Dividend Stopper Date has been made in full (or an amount equal to the same has been duly set aside or provided for in full for the benefit of the Sukukholders of the relevant Series affected by such Non-Payment Election or a Non-Payment Event in accordance with the Master Mudaraba Agreement), as more particularly described in Condition 7.4 (Dividend and Redemption Restrictions).

In the absence of notice of a Non-Payment Election or a Non-Payment Event, as the case may be, having been given in accordance with Condition 7.3 (Effect of Non-Payment Event or Non-Payment Election), the fact of non-payment of the Rab-al-Maal Mudaraba Profit (or any part thereof) of a relevant Series on the relevant Mudaraba Profit Distribution Date or Mudaraba End Date of each Mudaraba, as the case may be, shall be evidence of the occurrence of a Non-Payment Election or a Non-Payment Event, as the case may be. Accordingly, the relevant Sukukholders shall have no claim in respect of Periodic Distribution Amounts (if any) not paid as a result of either a Non-Payment Election or a Non-Payment Event (irrespective of whether notice of such Non-Payment Election or Non-Payment Event, as the case may be, has been given in accordance with Condition 7.3 (Effect of Non-Payment Event or Non-Payment Election)) and the consequential non-payment of Periodic Distribution Amounts (if any) in such a circumstance shall not constitute an Event of Default. Periodic Distribution Amounts (if any) not paid following either a Non-Payment Election or a Non-Payment Event will not accumulate or compound. The Issuer shall not have any obligation to make any subsequent payment in respect of any such unpaid profit (whether from its own cash resources, from the Mudaraba Reserve or otherwise) and the Issuer will not have any obligation to make any subsequent payment in respect of any such Periodic Distribution Amounts.
If such a situation occurs, the Sukukholders shall not receive Periodic Distribution Amounts on the corresponding Periodic Distribution Date and neither the Sukukholders' Agent nor the Sukukholders shall have any claim in respect thereof. Any non-payment of Periodic Distribution Amounts or perceived risk of such non-payment may have a material adverse effect on the market value of the Sukuk.

The Sukuk are perpetual securities, which may be subject to early redemption (subject to certain conditions)

The Sukuk to be issued under the Programme are perpetual securities which have no fixed redemption date. The Issuer is under no obligation to redeem the Sukuk of any Series at any time and the Sukukholders have no right to call for their redemption unless an Event of Default occurs. The Events of Default and the Sukukholders' rights following an Event of Default are set out in Condition 11 (Events of Default and Winding-up). In certain circumstances, including: (i) if Condition 9.1(b)(ii) is marked as "applicable" in the Applicable Final Terms, on any date during the period commencing (and including) the relevant First Call Date to (and including) the relevant First Reset Date or on any relevant Periodic Distribution Date thereafter (each as defined in the Conditions); or (ii) if Condition 9.1(b)(iii) is marked as "applicable" in the Applicable Final Terms, on the First Call Date or on any relevant Periodic Distribution Date thereafter, and/or on any date on or after the Issue Date (whether or not a Periodic Distribution Date) if a Tax Event or a Capital Event occurs, if the Issuer may elect to redeem the Sukuk of a particular Series, all as more particularly described in Condition 9 (Redemption), although there is no assurance that the Issuer will so elect.

Therefore, prospective investors should be aware that they may be required to bear the financial risks of an investment in the Sukuk of a particular Series indefinitely, unless:

(i) the Issuer redeems the Sukuk of such Series in accordance with Condition 9 (Redemption);

(ii) the Issuer is directed by the Sukukholders following an Event of Default to redeem the Sukuk of such Series; or

(iii) they sell their Sukuk of such Series.

The exercise of (or perceived likelihood of exercise of) any such redemption feature of the Sukuk of a particular Series may limit their market value, which is unlikely to rise substantially above the price at which the Sukuk of such Series can be redeemed.

If the Sukuk of a particular Series are redeemed, there can be no assurance that the Sukukholders will be able to reinvest the amount received upon redemption in a comparable security at a rate that will provide the same rate of return as their investment in the Sukuk of such Series. Prospective investors should consider reinvestment risk in light of other investments available at that time. See also "*–Absence of a secondary market for, and limited liquidity of, the Sukuk of any Series can have an adverse effect on their market value*" for a description of the risks relating to the ability of Sukukholders to sell the Sukuk of such Series in the secondary market.

The Sukuk will cease to accrue profit from the due date for redemption (if any)

Prospective investors are advised that each Series of Sukuk will cease to accrue profit from the due date for redemption (if any) (following liquidation of the Mudaraba of the relevant Series). Consequently, should payments owing to the Sukukholders on the due date for redemption (if any) be received by them after the due date for any reason, no additional profit payment, late payment amount or other equivalent amount will be payable in respect of such delay. See Condition 6.2 (Cessation of Accrual).

Basel III reforms and risk of Sukuk absorbing losses

On 13 January 2011, the Basel Committee expanded on the Basel III capital rules with additional non-viability requirements (the "**January 13 Annex**"). The January 13 Annex requires non-common equity Tier 1 or Tier 2 instruments issued by an internationally active bank to have a provision in their terms and conditions or be included in a statutory legal framework that requires such instruments, at the option of the relevant authority, to either be written off or converted to common equity upon a "trigger event". A "**trigger event**" is the earlier of: (1) a decision that a write-off, without which the bank would become non-viable, is necessary, as determined by the relevant authority; and (2) the decision to make a public sector injection of capital, or equivalent support, without which the bank would have become non-viable, as determined by the relevant authority. SAMA mandated all Saudi banks, including the Issuer, to implement the additional requirements imposed by the January 13 Annex from 1 January 2013. See "*Sukukholders' right to receive payment of the nominal amount of the Sukuk and their right to any profit will be permanently cancelled or permanently Written-down (in whole or in part) upon the occurrence of a Non-Viability Event*". The capital treatment of capital instruments issued prior to this date, without such provisions, is expected to be phased out over a 10-year period commencing from 1 January 2013.

There can be no assurance that in the future SAMA will not amend its interpretation and implementation of the January 13 Annex described above. In addition, revisions to the January 13 Annex may be implemented in the Kingdom in a manner that is different from that which is currently envisaged, or regulations may be introduced through the introduction of an Applicable Statutory Loss Absorption Regime in the Kingdom.

If the regulatory requirements for capital instruments applicable to the Issuer are modified in the future, it is possible that authorities could use their powers in such a way as to result in the Sukuk of a particular Series absorbing losses in a manner other than as described herein. For example, The Law on the Treatment of Systemically Important Financial Institutions M/38 dated 25/4/1442H (corresponding to 10 December 2020G) (the "**SIFI Law**"), provides that in respect of any systemically important financial institution (which would include the Issuer), subject to certain conditions being met which include, among others, the financial institution being in distress or likely to become distressed, SAMA may, among other things, amend the rights of the holders of capital instruments.

The SIFI Law provides for executive regulations to be prepared by SAMA and the Authority and such executive regulations may stipulate further details with respect to any such amendment of rights. Whilst the SIFI Law provides that creditors whose rights are amended shall not incur greater losses than what is estimated would have been lost, had the relevant financial institution been wound up, there can be no assurance that any such amendment of rights or other action taken by SAMA will be similar to the loss absorption provisions set out in Condition 10 (Write-down at the Point of Non-Viability) or otherwise be in the interests of Sukukholders.

Furthermore, on or after the date on which the Applicable Statutory Loss Absorption Regime becomes effective, the provisions of Condition 10 (Write-down at the Point of Non-Viability) will lapse and cease to apply, except to the extent such provisions are required by the Applicable Statutory Loss Absorption Regime.

If, on or after such date, an event occurs which under the Applicable Statutory Loss Absorption Regime would lead to a determination of non-viability by SAMA, in respect of the Issuer, SAMA (or the Issuer following instructions from SAMA) may take such action in respect of the Sukuk of a particular Series as is required or permitted by such Applicable Statutory Loss Absorption Regime. Accordingly, the operation of any such future legislation or implementation of an Applicable Statutory Loss Absorption Regime may have an adverse effect on the positions of the Sukukholders.

Due to the deeply subordinated nature of the obligations arising under the Sukuk, the Conditions contain limited Events of Default and remedies

The Sukuk to be issued under the Programme are perpetual instruments with no fixed redemption date and there is no obligation on the Issuer to pay the nominal amount of the Sukuk of such Series other than in accordance with Condition 9.1(b) (Issuer's Call Option), Condition 9.1(c) (Redemption due to Taxation), Condition 9.1(d) (Redemption for Capital Event) or following the occurrence of an Event of Default in accordance with Condition 11.1 (Events of Default). In addition, the Issuer may be prohibited from making payments of Periodic Distribution Amounts on a Series of Sukuk in accordance with Condition 7 (Periodic Distribution Restrictions) and Periodic Distribution Amounts will not therefore be due other than in the limited circumstances described in the Conditions. See also "*Payments of Periodic Distribution Amounts may be cancelled and are non-cumulative*".

The Events of Default in the Conditions are limited to: (i) a default by the Issuer for a period of 14 days or more in the payment of any principal or profit (including Additional Amounts) due and payable by it under the Conditions (save in each case where such failure occurs solely as a result of an administrative or technical error or the occurrence of a Non-Payment Election or a Non-Payment Event); or (ii) an order having been made or an effective resolution having been passed for the winding-up, liquidation or dissolution of the Issuer or a similar event occurs under applicable law (otherwise than for the purposes of, or pursuant to, an amalgamation, reorganisation or restructuring while the Issuer is solvent (that is, able to pay its debts as they fall due and its assets exceed its liabilities)).

Moreover, pursuant to Condition 11 (Events of Default and Winding-up), upon the occurrence of any Event of Default, the Mudaraba of a particular Series will be liquidated in accordance with the provisions of the Master Mudaraba Agreement and the remedies available to the Sukukholders' Agent and/or the Sukukholders (as applicable) are limited to giving notice to the Issuer that the Sukuk of the relevant Series are, and shall immediately become, due and payable without presentation, demand, protest or other notice of any kind at their aggregate nominal amount together with any Outstanding Payments (as defined in the Conditions) and thereafter: (i) instituting any steps, actions or proceedings for the winding-up of the Issuer; and/or (ii) proving in the winding-up of the Issuer; and/or (iii) instituting any steps, actions or proceedings for the bankruptcy of the Issuer; and/or (iv) claiming in the liquidation of the Issuer; and/or (v) taking such other steps, actions or proceedings which, under Saudi Law, have an analogous effect to the actions referred to in paragraphs (i) to (iv) above, in each case, for all amounts of the relevant Mudaraba Capital, Rab-al-Maal Mudaraba Profit, Rab-al–Maal Final Mudaraba Profit and/or other amounts due to the Sukukholders on termination of the Master Mudaraba Agreement in accordance with its terms and the terms of the other Transaction Documents. Therefore, it will only be possible to enforce claims for payment of the applicable Dissolution Distribution Amount and/or Periodic Distribution Amounts in respect of the relevant Series of Sukuk when the same have become due pursuant to the Master Mudaraba Agreement and the Conditions.

Under no circumstances shall the Sukukholders' Agent or any Sukukholder have any right to cause the sale or other disposition of any of the Sukuk Assets (other than as expressly contemplated in the Transaction Documents).

Furthermore, the claims of creditors in respect of Senior Obligations will first have to be satisfied in any winding up, bankruptcy, dissolution, liquidation or analogous proceedings before the Sukukholders may expect to obtain any amounts in respect of their Sukuk and prior thereto the Sukukholders will have only limited (if any) ability to influence the conduct of such winding-up, liquidation or analogous proceedings.

Prospective investors should also note that any claims on a winding-up would be subject to Saudi bankruptcy and other laws. Therefore there can be no assurance that Sukukholders will receive payment of their claims in full or at all in these circumstances. See also "*Compliance with the Kingdom's bankruptcy and other laws may affect the Issuer's ability to perform its obligations under the Transaction Documents*".

Resettable fixed rate instruments have a market risk

A holder of an instrument with a fixed profit (or equivalent) rate that will be reset during the term of the instrument (as will be the case for any Series of Sukuk with effect from each relevant Reset Date (as defined in the Conditions) if not previously redeemed and/or purchased and cancelled) is exposed to the risk of fluctuating profit rate levels and uncertain profit rate income. While the expected profit rate on such Series of Sukuk is fixed until the relevant First Reset Date (with a reset of the initial profit rate on the first relevant Reset Date and every five years thereafter as set out in the Conditions and in the Applicable Final Terms), the current investment return rate in the capital markets (the market return rate) typically changes on a daily basis. As the market return rate changes, the market value of a Series of Sukuk may also change, but in the opposite direction. If the market return rate increases, the market value of the Sukuk of a particular Series would typically decrease. If the market return rate falls, the market value of the Sukuk of such Series would typically increase. Sukukholders should be aware that movements in these market return rates can adversely affect the market value of the Sukuk of a particular Series and can lead to losses for the Sukukholders if they sell their Sukuk.

Absence of a secondary market for, and limited liquidity of, the Sukuk of any Series can have an adverse effect on their market value

There is no assurance that a secondary market for any Series of Sukuk will develop or, if it does develop, that it will provide the Sukukholders with liquidity of investment or that it will continue for the life of the Sukuk. In addition, the transfer of any Sukuk is subject to the regulations and procedures of the Registrar and Tadawul and the satisfaction of certain conditions as described in Condition 3 (Transfers of Sukuk). The Sukuk generally may have a more limited secondary market liquidity and may be subject to greater price volatility than other debt securities as they are perpetual securities (see "–*The Sukuk are perpetual securities, which may be subject to early redemption (subject to certain conditions)*"), subordinated (see "–*The payment obligations of the Issuer under the Master Mudaraba Agreement are conditional, subordinated and unsecured obligations*"), will be Written-down (in whole or in part) upon the occurrence of a Non-Viability Event (see "–*Sukukholders' right to receive payment of the nominal amount of the Sukuk and their right to any profit will be permanently cancelled or permanently Written-down (in whole or in part) upon the occurrence of a Non-Viability Event*") and payments of Periodic Distribution Amounts in relation thereto may be restricted in certain circumstances (see "–*Payments of Periodic Distribution Amounts may be cancelled and are non-cumulative*").

The market value of each Series of Sukuk may fluctuate and a lack of liquidity, in particular, can have a material adverse effect on the market value of the Sukuk. Accordingly, a Sukukholder may not be able to find a buyer to buy its Sukuk readily or at prices that will enable the Sukukholder to realise a desired yield. As such, the purchase of Sukuk is suitable only for investors who can bear the risks associated with a lack of liquidity in the Sukuk and the financial and other risks associated with an investment in the Sukuk indefinitely.

The Sukuk of each Series may be subject to early redemption and Sukukholders may not be able to reinvest the amount received upon redemption at a rate that will provide the same rate of return as their investment in the Sukuk

In respect of each Series of Sukuk, upon the occurrence of a Tax Event or a Capital Event, and subject to a Non-Viability Event not having occurred (or if a Non-Viability Event has occurred, a Write-down in part having taken place in accordance with the instructions of the Financial Regulator), the Issuer may, having given the relevant prior notice to the Sukukholders in accordance with Condition 14 (Notices) and the Applicable Final Terms (which notice shall be irrevocable) and provided that no Non-Viability Event has occurred after the giving of such notice or prior to the redemption date specified in the notice, elect to redeem, in accordance with the Conditions, all but not some only of the Sukuk together with any accrued but unpaid Periodic Distribution Amounts (as more particularly described in Condition 9.1(c) (Redemption due to Taxation) in relation to a Tax Event, and Condition 9.1(d) (Redemption for Capital Event) in relation to a Capital Event). In all cases, any redemption of the Sukuk is subject to the requirements in Condition 9.1(a) (No Fixed Redemption Date and Conditions for Redemption), including obtaining the prior written consent of the Financial Regulator. There can be no guarantee that the consent of the Financial Regulator will be received on time or at all.

There is no assurance that the Sukukholders will be able to reinvest the amount received upon redemption at a rate that will provide the same rate of return as their investment in the Sukuk. During any period in which the Issuer may redeem the Sukuk, the market value of the Sukuk generally will not rise substantially above the Tax Redemption Amount or, as the case may be, the Capital Event Amount payable. Prospective investors should consider re-investment risk in light of other investments available at that time.

A change of law may affect the Issuer's ability to perform its obligations under the Transaction Documents

The Conditions are based on Saudi Law and administrative practices in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to, or change in the interpretation of, Saudi Law or administrative practice after the date of this Base Prospectus. Such changes in law may include the introduction of a variety of statutory resolution and loss-absorption tools which may affect the rights of holders of securities issued by the Issuer, including the Sukuk. Such tools may include the ability to write off sums otherwise payable on such securities at a time when the Issuer is no longer considered viable by SAMA or upon the occurrence of other trigger events.

Compliance with the Kingdom's bankruptcy and other laws may affect the Issuer's ability to perform its obligations under the Transaction Documents

A new bankruptcy law promulgated pursuant to Royal Decree No. M/50 dated 28/05/1439H (corresponding to 14/02/2018G) (the "**Bankruptcy Law**") created general bankruptcy procedures. If the Issuer's insolvency satisfied the eligibility conditions for such bankruptcy procedures, this could adversely affect the Issuer's ability to perform its obligations in respect of the Sukuk. There is little precedent to predict how claims by or on behalf of the Sukukholders would be resolved in the event of the Issuer satisfying the eligibility conditions of any such bankruptcy procedures and, accordingly, it is uncertain exactly how and to what extent the Transaction Documents would be enforced by a Saudi Arabian adjudicatory body in that situation and, therefore, there can be no assurance that Sukukholders will receive repayment of their claims in full or at all in these circumstances.

In addition, there is a material likelihood that a Saudi Arabian adjudicatory body could consider void a contractual provision that seeks to terminate a contract in the event of a preventative settlement or financial restructuring process being instigated. This is based on article 23 of the Bankruptcy Law, which states that contracts should continue during preventative settlement or financial restructuring processes and any condition to the contrary is null and void. Although there is an exemption for finance contracts, it is not clear whether the Conditions or the Transaction Documents will fall within the scope of this exemption. It is open to a contractual party to apply for its contract to be terminated, pursuant to article 24 of the Bankruptcy Law, if the party undergoing preventative settlement fails to comply with its obligations in the period after the commencement of preventative settlement.

Furthermore, pursuant to Article 27 of the SIFI Law, any application for bankruptcy procedures in respect of the relevant financial institution is subject to approval by SAMA, such that SAMA may instead, commence a treatment plan.

A decrease in the value of and profit earned from the investment in the Mudaraba Assets may affect the Issuer's ability to perform its obligations under the Transaction Documents

Pursuant to the Master Mudaraba Agreement, the proceeds of the issuance of each Series of Sukuk will be contributed by the Sukukholders' Agent (on behalf of the Sukukholders) to the Mudareb which proceeds shall form the initial Mudaraba Capital (as defined in the Conditions) of that Mudaraba. The Mudaraba Capital for that Mudaraba will be invested by the Issuer (as Mudareb), on an unrestricted co-mingling basis, in its fully Shari'a compliant financial and investment business activities carried out through the General Mudaraba Pool for that Mudaraba and, following investment of such Mudaraba Capital, the Mudaraba Capital for that Mudaraba shall constitute pro rata undivided assets in the General Mudaraba Pool for that Mudaraba (the "**Mudaraba Assets**"). Profit earned from such investment in such Mudaraba Assets in accordance with the Master Mudaraba Agreement will in turn be applied towards payments due to the Sukukholders in respect of the Sukuk.

No investigation or enquiry will be made and no due diligence will be conducted in respect of any Mudaraba Assets. The investment activities of any Mudaraba will be carried out by the Issuer, and the Sukukholders shall have no ability to influence such activities. The Issuer shall be granted the express entitlement to co-mingle its own assets in the General Mudaraba Pool of a Mudaraba and, as a result, it may not be possible to identify the relevant Mudaraba Assets separately from the assets of the Issuer.

If any of the risks relating to the business of the Issuer mentioned above (see "*Risks relating to the Issuer's business– factors that may affect the Issuer's ability to fulfil its obligations under the Sukuk and the Transaction Documents*") materialise or otherwise impact the Issuer's business, the value of and profit earned from the investment in such Mudaraba Assets may decrease which may, in turn, have a material adverse effect on the Issuer's ability to fulfil its payment obligations under the Master Mudaraba Agreement and, consequently, the Issuer's ability to make payments in respect of the Sukuk.

Furthermore, whilst the Mudareb has agreed in the Master Mudaraba Agreement to ensure that the Mudaraba Capital of a Mudaraba is invested in accordance with the investment plan (and with the degree of skill and care that it would exercise in respect of its own assets), the Master Mudaraba Agreement also provides that there is no guarantee of any return from the Mudaraba Assets for that Mudaraba. In addition, the Sukukholders' Agent and the Mudareb have agreed in the Master Mudaraba Agreement that the Mudareb shall not be responsible for any losses to the Mudaraba Capital of that Mudaraba suffered by the Sukukholders' Agent except to the extent such losses are caused by: (i) the Mudareb's breach of the Master Mudaraba Agreement; or (ii) the Mudareb's gross negligence, wilful misconduct or fraud.

Accordingly, prospective investors are advised that any claim by or on behalf of the Sukukholders for the Mudaraba Capital of that Mudaraba following any Event of Default may be reduced if and to the extent that the Mudareb is able to prove that any losses to such Mudaraba Capital were not caused by: (i) the Mudareb's breach of the Master Mudaraba Agreement; or (ii) the Mudareb's gross negligence, wilful misconduct or fraud. If the Mudareb is able to provide such proof, the Sukukholders may lose all or some of their investment. It is not possible to state with certainty what approach any Saudi court with jurisdiction will take in such circumstances.

No third-party guarantees

Investors should be aware that no guarantee is or will be given in relation to any Series of Sukuk by the shareholders of the Issuer or any other person.

Minimum regulatory capital and liquidity requirements

The Issuer is subject to the risk, inherent in all regulated financial businesses, of having insufficient capital resources to meet the minimum regulatory capital requirements applicable to it. Under Basel III, capital requirements are inherently more sensitive to market movements than under previous regimes and capital requirements will increase if economic conditions or negative trends in the financial markets worsen. Any failure of the Issuer to maintain its minimum regulatory capital ratios could result in administrative actions or sanctions, which in turn may have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects. A shortage of available capital might restrict the Issuer's opportunities for expansion. On 16 December 2010, the Basel Committee issued its final guidance on Basel III in "Basel III: A global regulatory framework for more resilient banks and banking systems". A revised version was subsequently published in June 2011 (the "**Basel III June 2011 Guidance**"). Following this, in December 2012, SAMA issued its final guidance on the Basel III capital reforms. SAMA's package of reforms includes increasing the minimum common equity (or equivalent) requirement from 2 per cent. (before the application of regulatory adjustments) to 4.5 per cent. (after the application of stricter regulatory adjustments) of risk weighted assets. The total Tier 1 capital requirement will increase from 4 per cent. to 6 per cent. of risk weighted assets. In addition, banks will be required to maintain, in the form of common equity (or equivalent), a capital conservation buffer of 2.5 per cent. to withstand future periods of stress, bringing the total common equity (or equivalent) requirements to 7 per cent. of risk weighted assets. If there is excess credit growth in any given country resulting in a system-wide build-up of risk, a countercyclical buffer within a range of 0 per cent. to 2.5 per cent. of common equity (or other fully loss absorbing capital) is to be applied as an extension of the conservation buffer. Furthermore, systemically important banks should have loss-absorbing capacity beyond these standards (see the following sections "– Basel III reforms and risk of Sukuk absorbing losses" and "– Sukukholders' right to receive payment of the nominal amount of the Sukuk and their right to any profit will be permanently cancelled or permanently Written-down (in whole or in part) upon the occurrence of a Non-Viability Event").

The Basel III reforms also require Tier 1 and Tier 2 capital instruments to be more loss-absorbing. The Basel III requirements implemented in the Kingdom in their current form increases the minimum quantity and quality of capital which the Issuer is obliged to maintain. There can be no assurance as to the availability or cost of such capital for the Issuer. Basel III has been implemented by SAMA from 1 January 2013 and are subject to a series of transitional arrangements, which will be phased in over a period of time, and are expected to be fully effective by 2019. They are also supplemented by a leverage ratio, a liquidity coverage ratio and a net stable funding ratio. SAMA has maintained their approach to fully implement Basel III as provided by the Basel Committee guidance. However, as other reforms such as trading book reforms are finalised, Basel III may be implemented in the Kingdom in a manner that is different from that which is currently envisaged, or regulations may be introduced in the Kingdom which imposes additional capital requirements on, or otherwise affect the capital adequacy requirements relating to, Saudi Arabian banks. If the regulatory capital requirements, liquidity restrictions or ratios applied to the Issuer are increased in the future, any failure of the Issuer to maintain such increased regulatory capital ratios could result in administrative actions or sanctions, which may have an adverse effect on the Issuer's business, financial condition, results of operations and prospects.

There is no assurance that the Sukuk will be Shari'a compliant

The Shari'a Committee of the Al Rajhi Capital Company has confirmed that the Transaction Documents are, in their view, compliant with the principles of Shari'a as applicable to, and interpreted by, them. However, there can be no assurance that the Transaction Documents or the issue and trading of any Series of Sukuk will be deemed to be Shari'a compliant by any other Shari'a board or Shari'a scholars. None of the Issuer, the Sole Arranger, the Dealers, the Sukukholders' Agent or the Payment Administrator makes any representation to prospective investors as to the Shari'a compliance of the Sukuk and prospective investors are reminded that, as with any Shari'a views, differences in opinion are possible and different Shari'a standards may be applied by different Shari'a boards.

Prospective investors should obtain their own independent Shari'a advice as to the compliance of the Transaction Documents and whether the Sukuk will meet their individual standards of compliance and the issue and trading of any Sukuk with Shari'a principles, including the tradability of any Series of Sukuk on any secondary market. Questions as to the Shari'a compliance of the Transaction Documents or the Shari'a permissibility of the issue and the trading of the Sukuk may limit the liquidity and adversely affect the market value of the Sukuk.

In addition, prospective investors are reminded that the enforcement of any obligations of any of the parties under the Transaction Documents or the Sukuk may, if in dispute, be subject of court and judicial committee proceedings under the laws of Saudi Arabia. In such circumstances, the courts will interpret the respective terms of the Transaction Documents or the Sukuk (as the case may be) under the laws of Saudi Arabia (by which they are expressed to be governed) in determining the obligations of the parties thereunder. Although the laws and regulations of Saudi Arabia are based on Shari'a law, different courts and judicial committees in the Kingdom (including the Committees) may form different opinions on the interpretation of Shari'a principles (see "– *Risks relating to enforceability and taxation in the Kingdom*" below).

Trading, clearing and settlement

Each Series of Sukuk will be admitted to the clearing and settlement system of the Registrar. However, there can be no assurance that there will be no interruption to, or errors in, clearing or settlement of the Sukuk as a result of the inexperience or lack of familiarity of the operations in regard to trading, clearing and settlement systems or of inherent inadequacies of any such trading, clearing or settlement system. Sole Arranger and/or the Dealers are under no obligation to provide pricing on, or make a market in, the Sukuk. Any sale of a particular Series of Sukuk by Sukukholders in any secondary market that may develop may be at a lower price than the original purchase price of such Sukuk.

Registry Agreement

The Registry Agreement is required to complete registration of each Series of Sukuk with the Tadawul and such registration is necessary to facilitate trading of the Sukuk by investors though Edaa. However, as of the relevant Issue Date of any issuance of Sukuk, the Registry Agreement may not have been signed and registration of any Sukuk with the Registrar may not have occurred. As such, investors should be aware that trading of the Sukuk through Edaa system may not be possible as at the relevant Closing Date. Under the Programme Agreement (as defined in the "*Subscription and Sale*" section of this Base Prospectus), the Issuer is required to sign the Registry Agreement and procure registration of the Sukuk with Edaa as soon as practicable and, in any event, no later than 10 Business Days after the relevant Issue Date.

Modification, Waivers and Substitution

The Conditions contain provisions for calling meetings of the Sukukholders of each Series of Sukuk to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Sukukholders, including Sukukholders who did not attend and vote at the relevant meetings and the Sukukholders who voted in a manner contrary to the majority. The meeting provisions in the Transaction Documents are subject in their entirety to the relevant provisions of Saudi Arabian Companies Regulations issued pursuant to Royal Decree no. M/3 dated 28/01/1437H (corresponding to 10 November 2015G), as amended which will, in case of a contradiction, prevail over the meeting provisions set out in the Transaction Documents.

RISKS RELATING TO ENFORCEABILITY AND TAXATION IN THE KINGDOM

Governing law, jurisdiction and enforceability

Each Series of Sukuk and the Transaction Documents are governed by, and are to be construed in accordance with, Saudi Law, which laws are based on Islamic law, or Shari'a. The relevant principles of Islamic law are generally construed and applied pursuant to the teachings of certain schools of jurisprudence. In this regard, the Saudi courts may decline to enforce any contractual or other obligations (including any provisions relating to the payment of profit) if it is their view that the enforcement thereof would be contrary to principles of Shari'a.

There are a number of Saudi courts which have jurisdiction in respect of certain types of claims. Commercial disputes are subject to the jurisdiction of the Commercial Courts. Commercial disputes do not include disputes arising out of or in connection with transactions governed by the Capital Market Law and delegated legislation. Disputes arising under the Capital Market Law of the KSA (issued by Royal Decree No. (M/30) dated 2/6/1424H (corresponding to 1/8/2003G) as amended by Royal Decree No. (M/16) dated 19/1/1441H (corresponding to 18/9/2019G)) and its implementing regulations are heard before a quasi-judicial body known as the Committee for the Resolution of Securities Disputes established pursuant to paragraph (a) of article 30 of the Capital Market Law and the Appeal Panel formed pursuant to paragraph (i) of article 30 of the Capital Market Law (the "**Committee**").

In accordance with Condition 17 (Governing Law and Jurisdiction), the Committee shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with the Sukuk. Prospective investors should note that, to the best of the Issuer's knowledge, no securities of a similar nature to the Sukuk have previously been the subject of enforcement in the Kingdom. Accordingly, it is uncertain exactly how and to what extent the Transaction Documents (or any of them) would be enforced by the Committee or any other adjudicatory authority in the Kingdom.

However, prospective investors should also be aware that, generally, the Saudi courts, including the Committee, have a wide discretion as to how principles of Islamic Shari'a are applied to a particular set of circumstances and previous decisions of such courts and judicial committees are not considered as establishing binding precedents for deciding subsequent disputes. Accordingly, it is uncertain exactly how and to what extent the Sukuk, the Conditions and/or the Transaction Documents would be enforced by the Committee or, should circumstances dictate that they have jurisdiction, in the Saudi courts.

In some circumstances, it may not be possible to obtain the legal remedies provided under Saudi Law in a timely manner. As a result of these and other factors, the outcome of any legal disputes in the Kingdom may be uncertain, which may adversely affect the value of the Sukuk.

Events of default

There is a risk that the courts and judicial committees of the Kingdom would not give effect to any of the Events of Default other than those Events of Default relating to the non-payment of amounts due under the Transaction Documents.

Penalties and indemnities

There is a risk that should any provision of the Transaction Documents be construed by a court or judicial committee of the Kingdom to be an agreement to pay a penalty rather than a genuine estimate of loss incurred, such provision would not be enforced in the Kingdom. Further, any indemnity provided by the Issuer in relation to the Sukuk or pursuant to the Transaction Documents would not be enforceable under the laws and regulations of the Kingdom in certain circumstances.

A court may not grant an order for specific performance

In the event that the Issuer fails to perform its obligations under any Series of Sukuk or any Transaction Document, the potential remedies available to the Sukukholders' Agent (on behalf of Sukukholders) include (i) obtaining an order for specific performance of the Issuer's obligations, or (ii) a claim for damages.

There is no assurance that a court will provide an order for specific performance, as this is generally a matter for the discretion of the relevant court. Specific performance, injunctive relief and declaratory judgments and remedies are rarely available as judicial and other adjudicative remedies in the Kingdom. The amount of damages which a court may award in respect of a breach will depend upon a number of possible factors, including an obligation on the Sukukholders' Agent and the Sukukholders to mitigate any loss arising as a result of such breach. No assurance is provided on the level of damages which a court may award in the event of a failure by the Issuer to perform its obligations set out in the Sukuk and the Transaction Documents. Damages for loss of profits, consequential damages or other speculative damages are not awarded in the Kingdom by the courts or other adjudicatory authorities, and only actual, direct and proven damages are awarded.

Risks relating to notices

The Electronic Transactions Law was issued pursuant to Royal Decree No. M/18 dated 08/03/1428H (corresponding to 26 March 2007G) as amended or supplemented from time to time, most recently pursuant to Royal Decree No. M/57 dated 01/08/1436H (corresponding to 19 May 2015G). Notices given by way of facsimile or other electronic means are prima facie acceptable forms of notification in the Saudi Courts. In principle, parties to an agreement governed by Saudi law which stipulates that notices may be given by way of facsimile or other electronic means may rely on such notices provided that such provisions are stipulated in the relevant agreement as the agreed form of communication between such parties (as clarified by Circular No. 34 dated 24/04/1439H).

Tax consequences in the Kingdom

The Sukukholders may be subject to payment of income tax, withholding tax, zakat or other taxation in the Kingdom as a result of acquiring, holding or disposing of the Sukuk of any Series. Each prospective Sukukholder must take its own professional advice as to the tax consequences for such Sukukholder of acquiring, holding or disposing of any Sukuk. For a further discussion of taxation and zakat issues relating to the acquisition, holding or disposal of the Sukuk, see the "*Taxation and Zakat*" section of this Base Prospectus.

TERMS AND CONDITIONS OF THE SUKUK

The following is the text of the Terms and Conditions of the Sukuk which (subject to modification and except for the text in italics) will be attached and (subject to the provisions thereof) apply to each Global Sak.
The Applicable Final Terms in relation to any Tranche may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Series.

The Saudi Central Bank ("**SAMA**") does not make any representation as to the accuracy or completeness of this Base Prospectus and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Base Prospectus. In particular, prospective investors of the Sukuk agree and acknowledge that SAMA assumes no liability whatsoever to any purchaser of the Sukuk for any loss arising from, or incurred, as a result of, the occurrence of a Non-Viability Event (as defined in these Conditions).

Al Rajhi Banking and Investment Corporation (the "**Issuer**") was incorporated under commercial registration no. 1010000096and converted into a joint stock company pursuant to Royal Decree No. M/59 dated 3/11/1407H (corresponding to 29/06/1987G), has established a programme (the "**Programme**") for the issuance of additional tier 1 capital sukuk (each, a "**Sak**" and, together, the "**Sukuk**") from time to time up to SAR 10,000,000,000 in an aggregate nominal amount of Sukuk as are outstanding (subject to increase in accordance with the terms of the Programme Agreement (as defined below)). In these Terms and Conditions (the "**Conditions**", and any reference herein to a numbered Condition is to the corresponding numbered provision hereof), references to "Sukuk" shall be references to the sukuk which are the subject of a final terms document (the "**Applicable Final Terms**") and references to the Applicable Final Terms are to the final terms (or the relevant provisions thereof) of that Tranche (as defined below) as completed by the Issuer at the time of issue of the relevant Tranche.

The Applicable Final Terms supplement these Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Conditions, replace or modify these Conditions for the purposes of each Global Sak issued in respect of a Tranche under the Programme.

Each Sukuk will represent an undivided ownership interest in the relevant Sukuk Assets (as defined below) and will at all times rank pari passu among themselves.

Pursuant to a master declaration of agency (the "**Master Declaration of Agency**") dated 20 October 2022 between the Issuer and Al Rajhi Capital Company (in its capacity as agent on behalf of the Sukukholders, the "**Sukukholders' Agent**", which expression includes any successor Sukukholders' Agent in relation to the Sukuk), as supplemented by a supplemental declaration of agency between the same parties in relation to the relevant Tranche of Sukuk (each a "**Supplemental Declaration of Agency**" and together with the Master Declaration of Agency, each a "**Declaration of Agency**"), the Sukukholders' Agent will be appointed to act as agent for and on behalf of the Sukukholders in respect of the relevant Tranche of Sukuk.

Each Sukukholder by subscribing to, acquiring and/or holding Sukuk shall be deemed to authorise, ratify and approve the entry by the Sukukholders' Agent into the Transaction Documents (as defined below) and agrees to the terms of each of the Transaction Documents including, but not limited to, the appointment of the Sukukholders' Agent as agent of the Sukukholders in the Master Declaration of Agency. The appointment of the Sukukholders' Agent may be revoked or terminated (and the Sukukholders' Agent may resign its appointment) in accordance with the provisions of the Master Declaration of Agency.

Payments relating to the Sukuk will be made pursuant to a payment administration agreement (the "**Payment Administration Agreement**") dated 20 October 2022 between the Issuer, the Sukukholders' Agent and Al Rajhi Capital Company (in its capacity as payment administrator, the "**Payment Administrator**").

The Sukuk of each Series (as defined below) shall form a separate series and these Conditions shall apply mutatis mutandis separately and independently to the Sukuk of each Series and, in these Conditions, the expressions "Sukuk", "Sukukholders" and related expressions shall be construed accordingly.

Certain provisions of these Conditions are summaries of the Transaction Documents and are subject to their detailed provisions. The Sukukholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Transaction Documents applicable to them. Copies of the Transaction Documents are available for inspection from the Issue Date by Sukukholders during normal business hours at the specified offices of each of the Issuer and the Sukukholders' Agent.

Each initial Sukukholder, by its acquisition and holding of its interest in a Sak, shall be deemed to authorise and direct the Sukukholders' Agent, on behalf of the Sukukholders: (i) to contribute the sums paid by it in respect of its Sak to the Mudareb (as defined in Condition 5 (The Sukuk Assets)) in accordance with the Master Mudaraba Agreement (as defined in Condition 5 (The Sukuk Assets)); (ii) to act as Sukukholders' Agent pursuant to the Master Mudaraba Agreement on its behalf (which authorisation and direction shall also apply to its successors in title); and (iii) to enter into each Transaction Document, subject to the provisions of the Master Declaration of Agency and these Conditions.

1. INTERPRETATION

Words and expressions defined in the Applicable Final Terms, the Master Declaration of Agency and the Payment Administration Agreement shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of any inconsistency between any such documents and the Applicable Final Terms, the Applicable Final Terms will prevail. In addition, in these Conditions the following expressions have the following meanings:

"**Additional Amounts**" has the meaning given to it in Condition 12 (Taxation);

"**Additional Tier 1 Capital**" means capital qualifying as (or which would qualify as, but for any applicable limitation on the amount of such capital), and ap proved by the Financial Regulator as, additional tier 1 capital in accordance with the Capital Regulations;

"**Aggregate Nominal Amount**" means, in respect of a Sak, the initial nominal amount of such Sak as reduced by a Write-down of such Sak (on one or more occasions) at or prior to such time pursuant to Condition 10 (Write-down at the Point of Non-Viability);

"**Applicable Rate**" has the meaning given to it in the Master Mudaraba Agreement;

"**Applicable Regulatory Capital Requirements**" means any requirements contained in the Capital Regulations for the maintenance of capital from time to time applicable to the Issuer, on a solo or consolidated basis, as the case may be, including transitional rules and waivers granted in respect of the foregoing;

"**Applicable Statutory Loss Absorption Regime**" means a Statutory Loss Absorption Regime that is applicable to the Sukuk and which, alone or together with any other law(s) or regulation(s), has the effect that Conditions 10.2 (Non-Viability Event) and 10.3 (Non-Viability Notice) could cease to apply to the Sukuk without giving rise to a Capital Event;

"**Authority**" means the Capital Market Authority of the Kingdom;

"**Authorised Signatory**" means any of the following: the chief executive officer of the Issuer, the chief financial officer of the Issuer and the treasurer of the Issuer or any other person(s) duly authorised by the Issuer to sign on its behalf;

"**Basel III**" means the set of reforms to the international regulatory capital framework issued by the Basel Committee (including, but not limited to, the Basel III Documents) as part of a package of new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards for international credit institutions (including guidance on the eligibility criteria for tier 1 capital instruments and tier 2 capital instruments);

"**Basel III Documents**" means the Basel Committee document "*A global regulatory framework for more resilient banks and banking systems" released by the Basel Committee on 16 December 2010 and revised in June 2011 and the Annex contained in its document "Basel Committee issues final elements of the reforms to raise the quality of regulatory capital*" on 13 January 2011;

"**Basel Committee**" means the Basel Committee on Banking Supervision;

"**Business Day**" means a day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in the Kingdom;

"**Capital Event**" is deemed to have occurred if the Issuer is notified in writing by the Financial Regulator to the effect that the Aggregate Nominal Amount (or, if some amount of the Sukuk outstanding are held by the Issuer or whose purchase is funded by the Issuer, the amount that qualifies as regulatory capital) of the Sukuk is excluded (in full or, to the extent not prohibited by relevant regulatory criteria for Tier 1 Capital, in part) from the consolidated or, as the case may be, solo Tier 1 Capital of the Issuer (save where such non-qualification is only as a result of either: (a) any applicable limitation on the amount of such capital; or (b) such capital ceasing to count towards the Issuer's capital base through any amortisation or similar process or any changes thereto (including any amortisation or similar process imposed through any grandfathering arrangement));

"**Capital Event Redemption Amount**" means 100 per cent. of the Aggregate Nominal Amount of the Sukuk, together with any Outstanding Payments;

"**Capital Regulations**" means, at any time, the regulations, standards, requirements, guidelines, guidance and policies relating to the maintenance of capital and/or capital adequacy then in effect in the Kingdom, including those of the Financial Regulator;

"**Common Equity Tier 1 Capital**" means capital of the Issuer qualifying as, and approved by the Financial Regulator as, or capital which would, but for any applicable limitation on the amount of such capital, qualify as common equity tier 1 capital in accordance with the Capital Regulations;

"**Day-count Fraction**" means the actual number of days in the relevant period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months and, in the case of an incomplete month, the number of days elapsed of the Periodic Distribution Period in which the relevant period falls (including the first such day but excluding the last));

"**Determination Date**" means, in respect of a Reset Period, the third Business Day prior to the commencement of such Reset Period;

"**Dissolution Distribution Amount**" means the Issuer Call Amount, the Capital Event Redemption Amount or the Tax Event Redemption Amount, as the case may be, or such other amount in the nature of a redemption amount as may be determined in accordance with these Conditions;

"**Dissolution Notice**" has the meaning given to it in Condition 11.1 (Events of Default);

"**Dissolution Request**" has the meaning given to it in Condition 11.1 (Events of Default);

"**Distributable Profits**" means the amount of the Issuer's consolidated retained earnings and reserves, including general reserves, special reserves and statutory reserves (to the extent not restricted from distribution by applicable law), after the transfer of any amounts to non-distributable reserves, all as calculated by the Issuer based on its most recent consolidated financial statements, or any equivalent or successor term from time to time as prescribed by the Capital Regulations;

"**Extraordinary Resolution**" has the meaning given to it in the Master Declaration of Agency;

"**Effective Date**" has the meaning given to it in Condition 10.1 (Effectiveness);

"**Event of Default**" means any of the following events:

(a) Non-payment: the Issuer fails to pay an amount which is equivalent to principal or profit (including Additional Amounts) due and payable by it pursuant to these Conditions and the failure continues for a period of 14 days (save in each case where such failure occurs solely as a result of an administrative or technical error or the occurrence of a Non-Payment Election or a Non-Payment Event); or

(b) Winding-up: a Winding-Up Proceeding has occurred; or

(c) Analogous Event: any event occurs that under the laws of the Kingdom has an analogous effect to any of the events referred to in paragraph (b) above;

"**Final Mudaraba Profit**" has the meaning given to it in the Master Mudaraba Agreement;

"**Financial Regulator**" means SAMA or such other governmental authority which assumes or performs the functions of SAMA, as at the Issue Date, or such other successor authority exercising primary banking supervision, in each case with respect to prudential matters in relation to the Issuer;

"**First Call Date**" has the meaning given to it in the Applicable Final Terms;

"**First Reset Date**" has the meaning given to it in the Applicable Final Terms;

"**First Mudaraba Profit Distribution Date**" has the meaning given to it in the Master Mudaraba Agreement;

"**First Periodic Distribution Date**" has the meaning given to it in the Applicable Final Terms;

"**First Reset Periodic Distribution Date**" has the meaning given to it in the Applicable Final Terms;

"**General Mudaraba Pool**" has the meaning given to it in the Master Mudaraba Agreement;

"**Global Sak**" means the registered form global Sak representing the Sukuk;

"**Initial Period**" means the period from (and including) the Issue Date to (but excluding) the First Reset Date;

"**Initial Periodic Distribution Amount**" has the meaning given to it in the Applicable Final Terms;

"**Initial Periodic Distribution Rate**" has the meaning given to it in the Applicable Final Terms;

"**Issuer Call Amount**" means 100 per cent. of the Aggregate Nominal Amount of the Sukuk, together with any Outstanding Payments;

"**Junior Obligations**" means all claims of the holders of Ordinary Shares and all payment obligations of the Issuer in respect of its Common Equity Tier 1 Capital and any other subordinated payment obligations of the Issuer which rank, or are expressed to rank, junior to the Relevant Obligations;

"**Kingdom**" means the Kingdom of Saudi Arabia;

"**Margin**" has the meaning given to it in the Applicable Final Terms;

"**Master Mudaraba Agreement**" has the meaning given to it in Condition 5 (The Sukuk Assets);

"**Mid-Swap Maturity**" has the meaning given to it in the Applicable Final Terms;

"**Mid-Swap Pages**" has the meaning given to it in the Applicable Final Terms;

"**Mudaraba**" has the meaning given to it in Condition 5 (The Sukuk Assets);

"**Mudaraba Assets**" has the meaning given to it in Condition 5 (The Sukuk Assets);

"**Mudaraba Capital**" has the meaning given to it in the Applicable Final Terms and the Master Mudaraba Agreement;

"**Mudaraba End Date**" has the meaning given to that term in the Master Mudaraba Agreement;

"**Mudaraba Profit**" has the meaning given to that term in the Master Mudaraba Agreement;

"**Mudaraba Profit Distribution Date**" has the meaning given to it in the Applicable Final Terms;

"**Mudaraba Profit Rate Reset Date**" has the meaning given to that term in the Master Mudaraba Agreement;

"**Mudaraba Reserve**" has the meaning given to that term in the Master Mudaraba Agreement;

"**Mudareb**" has the meaning given to it in Condition 5 (The Sukuk Assets);

"**Non-Payment Election**" has the meaning given to it in Condition 7.2 (Non-Payment Election);

“**Non-Payment Event**” has the meaning given to it in Condition 7.1 (Non-Payment Event);

“**Non-Viability Event**” means that the Financial Regulator has notified the Issuer in writing that it has determined that the Issuer is, or will become, Non-Viable without:

(a) a Write-down of the Sukuk (and write-down of any of the Issuer’s other capital instruments or other obligations constituting Tier 1 Capital and/or Tier 2 Capital of the Issuer that, pursuant to their terms or by operation of law, are capable of being Written-down and/or converted into equity); or

(b) a public sector injection of capital (or equivalent support), provided that such injection of capital is not made: (i) by a shareholder of the Issuer; or (ii) on terms that are more favourable to the Issuer than those that would be accepted by private investors in comparable transactions;

“**Non-Viability Event Write-down Date**” shall be the date on which the Write-down will take place as specified in the Non-Viability Notice, which date shall be no later than ten Business Days after the date of the Non-Viability Notice (or such earlier date as determined by the “Financial Regulator);

“**Non-Viability Notice**” has the meaning given to it in Condition 10.3 (Non-Viability Notice);

“**Non-Viable**” means: (a) insolvent, bankrupt, unable to pay a material part of its obligations as they fall due or unable to carry on its business; or (b) any other event or circumstance which is specified as constituting non-viability by the Financial Regulator or in applicable Capital Regulations or any Applicable Statutory Loss Absorption Regime;

“**Ordinary Shares**” means ordinary shares of the Issuer;

“**Other Common Equity Tier 1 Instruments”** means securities issued by the Issuer that qualify as Common Equity Tier 1 Capital of the Issuer other than Ordinary Shares;

“**Outstanding Payments**” means, in relation to any amounts payable on redemption or repayment of the Sukuk, an amount representing accrued and unpaid Periodic Distribution Amounts for the Periodic Distribution Period during which redemption or repayment occurs to the date of redemption or repayment plus Additional Amounts thereon, if any;

“Pari Passu Obligations” means all other subordinated payment obligations of the Issuer which rank, or are expressed to rank, pari passu with the Relevant Obligations;

“**Periodic Distribution Amount**” has the meaning given to it in Condition 6.1(Periodic Distribution Amounts);

“**Periodic Distribution Date**” has the meaning given to it in the Applicable Final Terms;

“**Periodic Distribution Period**” means the period beginning on (and including) the Issue Date and ending on (but excluding) the First Periodic Distribution Date and each successive period beginning on (and including) a Periodic Distribution Date and ending on (but excluding) the next succeeding Periodic Distribution Date;

“**Person**” means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"**Profit Rate**" means, in respect of the Initial Period, the Initial Periodic Distribution Rate, and, in respect of each Reset Period thereafter, the rate calculated in accordance with the provisions of Condition 6.3(i);

"**Qualified Person**" means:

(a) a natural person who is considered to be resident in the Kingdom in accordance with the Income Tax Law issued by a Royal Decree no. M/1 dated 15/1/1425H (as amended) and the implementing regulations thereof (the "Income Tax Law"); or

(b) a legal person who is considered to be resident in the Kingdom in accordance with the Income Tax Law and who is holding a current commercial registration number issued by the Ministry of Commerce. However, the requirement for such legal person to hold a current commercial registration number issued by the Ministry of Commerce would not apply to Saudi Arabian governmental entities and mutual funds established in the Kingdom and managed by a person authorised by the Authority or any other entity established in the Kingdom that is not required by the laws of the Kingdom to hold a commercial registration, and who, in each case, has a bank account with a local bank in the Kingdom;

"**Rab-al-Maal**" has the meaning given to it in Condition 5 (The Sukuk Assets);

"**Rab-al-Maal Mudaraba Profit**" has the meaning given to it in the Master Mudaraba Agreement;

"**Rab-al-Maal Final Mudaraba Profit**" has the meaning given to it in the Master Mudaraba Agreement;

"**Record Date**" means in the case of the payment of a Periodic Distribution Amount, the date falling on the 15th day before the relevant Periodic Distribution Date and, in the case of the payment of a Dissolution Distribution Amount, the date falling two Business Days before the date for payment of the relevant Dissolution Distribution Amount, as the case may be;

"**Register**" has the meaning given to it in Condition 2.1 (Form and Denomination);

"**Registered Account**" has the meaning given to it in Condition 8.1 (Payments in respect of the Sukuk);

"**Registrar**" means Securities Depository Center Company (Edaa) (and includes any successor registrar as may be appointed in accordance with the provisions of the registry and trading agreement to be entered into between the Issuer and the Registrar in relation to the Sukuk on or about the Issue Date);

"**Relevant Reset Rate**" means, the average of the two 'close' mid-swap rate for Saudi Riyal swap transactions with the Mid-Swap Maturity displayed on the Mid-Swap Pages, or such other service as may be nominated by the person providing or sponsoring the information appearing there for the purposes of displaying comparable rates) at or about 11.00 a.m. (Riyadh time) on the Determination Date. In the event that one of the two Mid-Swap Pages is not available, the remaining Bloomberg Screen Page 'close' swap will be used. If neither of the correct mid swap rates appear on that page, the Saudi Riyal mid swap rate shall instead be determined by the Issuer on the basis of the arithmetic mean of quotations provided by the principal office of each of four major SAR swap market makers at approximately 11.00 a.m. (Riyadh time). If on any Determination Date fewer than four, or none, of the four major banks in the Saudi Riyal swap market provides the Issuer with the quotations referred to in the foregoing sentence, the Relevant Reset Rate shall be determined to be the Relevant Reset Rate as at the last preceding Reset Date or, in the case of the first Determination Date, as at the Issue Date;

"**Relevant Obligations**" means the payment obligations of the Issuer under these Conditions and the Master Mudaraba Agreement (including all payments which are the equivalent of principal and profit);

"**Reset Date**" has the meaning given to it in the Applicable Final Terms;

"**Reset Period**" means the period from (and including) the First Reset Date to (but excluding) the earlier of: (a) the Mudaraba End Date and (b) the following Reset Date, and (if applicable) each successive period thereafter from (and including) such Reset Date to (but excluding) the earlier of: (x) the Mudaraba End Date and (y) the next succeeding Reset Date;
"**SAMA**" means the Saudi Central Bank and/or any of its successors or assigns;

"**Saudi Law**" means the laws and regulations of the Kingdom;

"**Senior Obligations**" means all unsubordinated payment obligations of the Issuer (including payment obligations to the Issuer's depositors) and all subordinated payment obligations (if any) of the Issuer except Pari Passu Obligations and Junior Obligations;

"**Series**" means a Tranche of Sukuk together with any additional Tranche or Tranches of Sukuk which: (a) are expressed to be consolidated and form a single series; and (b) have the same terms and conditions or terms and conditions which are the same in all respects save for the amount and date of the first payment of Periodic Distribution Amount thereon and the date from Periodic Distribution Amounts start to accrue;

"**Specified Denominations**" means SAR 1,000;

"**Statutory Loss Absorption Regime**" means any statutory regime implemented in the Kingdom which provides the Financial Regulator with the powers to implement loss absorption measures in respect of capital instruments (such as the Sukuk), including, but not limited to, any such regime which is implemented pursuant to Basel III and/or The Law on the Treatment of Systemically Important Financial Institutions M/38 dated 25/4/1442H;

"**Subsidiary**" means any entity whose financial statements at any time are required by law or in accordance with provisions of generally accepted accounting principles to be fully consolidated with those of the Issuer;

"**Sukukholders**" means a person in whose name the Sak is registered in the Register (or, in the case of a joint holding, the first named person) and the expressions "**holders**" and "**holders of Sukuk**" and related expressions shall (where appropriate) be construed accordingly;

"**Sukuk Assets**" has the meaning given to it in Condition 5 (The Sukuk Assets);

"**Tadawul**" means the Saudi Stock Exchange;

"**Taxes**" has the meaning given to it in Condition 12 (Taxation);

"**Tax Event**" means the Issuer would, as a result of a Tax Law Change, in making any payments under the Master Mudaraba Agreement (in the case of the Issuer (in its capacity as Mudareb) or the Sukuk (in its capacity as Issuer), on the next due date for a payment of Mudaraba Profit or Periodic Distribution Amount, respectively (whether or not a Non-Payment Event has occurred or a Non-Payment Election has been made), be required to pay Additional Amounts (and such requirement cannot be avoided by the Issuer (in its capacity as Mudareb or Issuer, as the case may be) taking reasonable measures available to it);

"**Tax Event Redemption Amount**" means 100 per cent. of the Aggregate Nominal Amount of the Sukuk, together with any Outstanding Payments;

"**Tax Law Change**" means any change in, or amendment to, the laws, published practice or regulations of the Kingdom, or any change in the application or official interpretation of such laws, published practice or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective (or, in the case of application or official interpretation, is announced) on or after 20 October 2022;

"**Tier 1 Capital**" means capital qualifying as (or which would qualify as, but for any applicable limitation on the amount of such capital), and approved by the Financial Regulator as, tier 1 capital in accordance with the Capital Regulations;

"**Tier 2 Capital**" means capital qualifying as (or which would qualify as, but for any applicable limitation on the amount of such capital), and approved by the Financial Regulator as, tier 2 capital in accordance with the Capital Regulations;

"**Tranche**" means Sukuk which are identical in all respects;

"**Transaction Account**" has the meaning given to it in Condition 5 (The Sukuk Assets);

"**Transaction Documents**" means each of the Declaration of Agency, the Payment Administration Agreement, the Master Mudaraba Agreement, the Sukuk (including the Global Sak) and any other agreements, deeds, undertakings or other documents designated as such by the parties thereto;

"**Winding-Up Proceeding**" means an administrator is appointed, an order is made by any competent court or the government of the Kingdom or an effective resolution is passed for the administration, winding-up, liquidation or dissolution of the Issuer in accordance with applicable law or the Issuer applies or petitions for a winding-up or administration order in respect of itself (except, in any such case, a solvent winding-up solely for the purposes of a reorganisation, reconstruction or amalgamation approved by any court of competent jurisdiction or other competent authority);

"**Write-down**" means:

(a) the Sukukholders' rights under or in respect of the Sukuk Assets (including the Mudaraba Assets) shall automatically be deemed to be irrevocably and unconditionally Written-down in a proportion corresponding to the relevant Write-down Amount;

(b) in the case of the relevant Write-down Amount corresponding to the full proportion of the Aggregate Nominal Amount of each Sak then outstanding, the Sukuk shall be cancelled;

(c) in the case of the relevant Write-down Amount corresponding to the full proportion of the Aggregate Nominal Amount of each Sak then outstanding, the Sukukholders' rights under the Mudaraba Assets shall be granted to the Mudareb such that the value of the Mudaraba Assets is zero; and

(d) all rights of any Sukukholder for payment of any amounts under or in respect of the Sukuk (including, without limitation, the Dissolution Distribution Amount and any amounts arising as a result of, or due and payable upon the occurrence of, an Event of Default) in a proportion corresponding to the relevant Write-down Amount (and any related unpaid Periodic Distribution Amounts) shall be cancelled and not restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Non-Viability Notice or the Non-Viability Event Write-down Date, and all references to "**Written-down**" will be construed accordingly; and

"**Write-down Amount**" means, on any Non-Viability Event Write-down Date, the amount as determined by the Financial Regulator by which the Aggregate Nominal Amount of the Sukuk then outstanding is to be Written-down on a pro rata basis and shall be calculated per Sak by reference to the Aggregate Nominal Amount of each Sak then outstanding which is to be Written-down (and shall be specified in the Non-Viability Notice).

All references in these Conditions to "**Saudi Riyal**" and "**SAR**" are to the lawful currency of the Kingdom.

2. FORM, DENOMINATION AND TITLE

2.1 Form and Denomination

Each Series of Sukuk will be issued in dematerialized registered form in the Specified Denomination. Each Series of Sukuk will be collectively represented by a Global Sak which will be deposited as the Sukukholders' Agent may direct in accordance with the provisions of the Master Declaration of Agency. Individual Sukuk representing holdings of the Global Sak will not be issued but Sukukholders will on request be entitled to receive a statement from the Registrar recording their holding of Sukuk.

2.2 Title

(a) The Global Sak will represent all of the Sukuk that are current in respect of the relevant Series and the ownership by the Sukukholders of an undivided beneficial ownership interest in the Sukuk Assets and an undivided interest in the Relevant Obligations. Each Sukukholder shall (except as otherwise required by law) be treated as the absolute owner of such Sukuk for all purposes regardless of any notice of ownership, trust or any other interest therein.

(b) The Issuer will cause the Registrar to maintain the Register. The Registrar will maintain the Register in respect of each Series of Sukuk in accordance with the regulations and procedures of the Registrar and Tadawul by implementing the registry system administered by the Registrar (the "**Register**"). Each Sukukholder will (except as otherwise required by law) be treated as the absolute owner of the relevant Sukuk for all purposes (regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Global Sak) and no person will be liable for so treating the holder of any Sukuk. Each Sukukholder will be recognised by the Issuer as entitled to such Sukuk free from any equity, set-off or counterclaim on the part of the Issuer against the original or any intermediate holder of the Global Sak.

3. TRANSFERS OF SUKUK

3.1 Restrictions

Subject to Condition 3.3 (Regulations concerning Transfers and Registrations) below, the Sukuk may be transferred in accordance with the regulations and procedures established by the Registrar and Tadawul by delivering to the Registrar and Tadawul such information as such regulations and procedures shall require.

3.2 Transfer Charges

The transfer of Sukuk may be subject to a charge by the Registrar and Tadawul and all such charges shall be borne solely by the transferring Sukukholder and the transferee. For the avoidance of doubt, neither the Issuer nor the Sukukholders' Agent shall be liable to pay any such charges imposed by the Registrar or Tadawul.

3.3 Regulations concerning Transfers and Registrations

All transfers of Sukuk and entries on the Register are subject to the regulations and procedures of the Registrar, Tadawul and the provisions of the Payment Administration Agreement, including in relation to limitations in respect of closed periods. The regulations and procedures may be changed by the Registrar and Tadawul, respectively, at any time when necessary.

4. STATUS AND SUBORDINATION

4.1 Status

The Sukuk constitute an undivided beneficial ownership interest in the Sukuk Assets and an undivided interest in the Relevant Obligations and will at all times rank pari passu among themselves. The obligations of the Issuer to the Sukukholders are not secured by any assets or security or guaranteed by a third party and are subordinated as described in Condition 4.2 (Subordination).

4.2 Subordination

(a) Upon the occurrence and continuation of any Winding-Up Proceeding, the Relevant Obligations will: (i) constitute Additional Tier 1 Capital of the Issuer; (ii) constitute direct, unsecured, unconditional and subordinated obligations of the Issuer; (iii) rank subordinate and junior to all Senior Obligations but not further or otherwise; and (iv) rank pari passu with all other Pari Passu Obligations and rank in priority only to all Junior Obligations.

(b) The Sukukholders and the Sukukholders' Agent (acting on behalf of the Sukukholders) irrevocably waive their rights to the extent necessary to give effect to the subordination provisions of this Condition 4.2 (Subordination). In order to give effect to such subordination provisions, the Issuer, the Sukukholders and the Sukukholders' Agent (acting on behalf of the Sukukholders) agree that if a Winding-Up Proceeding shall have occurred and be continuing, any amounts that would be due and payable to them (including any amounts standing to the credit of the Mudaraba Reserve) will be applied:

(i) first, to the payment in full of each claim in respect of a Senior Obligation (including any amount in respect of a claim accruing after the date of commencement of such Winding-Up Proceeding); and

(ii) thereafter, to the payment, equally and rateably, of each amount owing in respect of the Relevant Obligations and all Pari Passu Obligations.

(c) Neither the Sukukholders' Agent nor any Sukukholder may exercise or claim any right of set-off in respect of any amount owed to it by the Issuer arising under or in connection with the Relevant Obligations and the Sukukholders' Agent and, by its holding of any Sukuk, each Sukukholder, shall be deemed to have waived all such rights of set-off to the fullest extent permitted by law.

(d) As a consequence of these subordination provisions, if a Winding-Up Proceeding should occur, the Sukukholders may recover less rateably than the holders of deposit liabilities, the holders of other unsubordinated liabilities or the holders of subordinated liabilities ranking senior to the Relevant Obligations, in each case, of the Issuer.

(e) The Sukukholders' Agent may only exercise its enforcement rights in relation to any Relevant Obligation or in relation to any of its other rights under the Master Mudaraba Agreement or any other Transaction Document in the manner provided in Condition 11.2 (Winding-up, Dissolution or Liquidation).

(f) The provisions of this Condition 4.2 (Subordination) apply only to the Relevant Obligations in respect of the Sukuk and nothing in this Condition 4.2 (Subordination) shall affect or prejudice the payment of the costs, charges, expenses, liabilities, indemnities or remuneration of the Sukukholders' Agent or the rights and remedies of the Sukukholders' Agent in respect thereof and in such capacity the Sukukholders' Agent shall rank as an unsubordinated creditor of the Issuer.

4.3 Other Issues

So long as any of the Sukuk remain outstanding, the Issuer (in its capacity as Mudareb or otherwise) will not issue any securities (regardless of name or designation) or create any guarantee of, or provide any contractual support arrangement in respect of, the obligations of any other entity which in each case constitutes (whether on a solo, or a solo consolidated or on a consolidated basis) issued Additional Tier 1 Capital of the Issuer if claims in respect of such securities, guarantee or contractual support arrangement would rank (as regards distributions on a return of assets on a winding-up or in respect of distribution or payment of dividends and/or any other amounts thereunder) senior to the Relevant Obligations. This prohibition will not apply if at the same time or prior thereto: (a) these Conditions and (to the extent applicable) the Transaction Documents are amended to ensure that the Sukukholders and/or the Sukukholders' Agent (on behalf of the Sukukholders) obtain; and/or (b) the Relevant Obligations have, in each case, the benefit of, such of those rights and entitlements as are contained in or attached to such securities or under such guarantee or contractual support arrangement as are required so as to ensure that claims in respect of the Relevant Obligations rank pari passu with, and contain substantially equivalent rights of priority as to distributions or payments on, such securities or under such guarantee or contractual support arrangement.

5. THE SUKUK ASSETS

5.1 Management of the Sukuk Assets

The Sukukholders' Agent has entered into a master mudaraba agreement (the "**Master Mudaraba Agreement**") dated 20 October 2022 with the Issuer (in such capacity, the "**Mudareb**"). Pursuant to the Master Mudaraba Agreement, the Sukukholders' Agent (in its capacity as rab-al-maal, "**Rab-al-Maal**") will contribute the Mudaraba Capital The Mudareb will invest the Mudaraba Capital in its general Shari'a-compliant business activities carried out through the General Mudaraba Pool and following investment of the Mudaraba Capital in the General Mudaraba Pool, the Mudaraba Capital shall constitute pro rata undivided assets in the General Mudaraba Pool (the "**Mudaraba Assets**") in accordance with the Master Mudaraba Agreement, which shall include an investment plan prepared by the Mudareb and shall constitute a mudaraba (the "**Mudaraba**").

The Sukukholders' Agent has opened a transaction account (the "**Transaction Account**") in its own name which shall be operated by the Payment Administrator on behalf of the Sukukholders' Agent and for the benefit of the Sukukholders and into which the Mudareb will pay all amounts due to or to the order of the Sukukholders under the Master Mudaraba Agreement.

Pursuant to the Declaration of Agency, the Sukukholders' Agent holds:

(i) the cash proceeds of the issue of the Sukuk, pending application thereof in accordance with the terms of the Transaction Documents;

(ii) all of its rights, title, interest and benefit, present and future, in, to and under the assets from time to time constituting the Mudaraba Assets;

(iii) all of its rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given by the Issuer (acting in any capacity) pursuant to any of the Transaction Documents and the covenants given to the Sukukholders' Agent pursuant to clause 10.1 of the Master Declaration of Agency); and

(iv) all amounts standing to the credit of the Transaction Account from time to time, and all proceeds of the foregoing (together, the "Sukuk Assets") for and on behalf of the Sukukholders pro rata according to the nominal amount of Sukuk held by each such holder in accordance with the Master Declaration of Agency and these Conditions.

None of the Sukukholders' Agent or the relevant dealer(s) or (so long as it performs its obligations under the Transaction Documents) the Issuer, is responsible for the performance or the profitability of the Sukuk Assets and the Sukukholders' Agent is not responsible for the share and amount of the distributions (if any) made to the Sukukholders.

5.2 Priority of Payments

On each Periodic Distribution Date and on any date fixed for payment of the Dissolution Distribution Amount, as applicable, the Payment Administrator shall apply the monies standing to the credit of the Transaction Account in the following order of priority (in each case, only if and to the extent that payments of a higher priority have been made in full):

(i) first (to the extent not previously paid), to the Sukukholders' Agent in respect of all amounts owing to it under the Transaction Documents;

(ii) second, only if such payment is due on a Periodic Distribution Date, and subject to Condition 7 (Periodic Distribution Restrictions), in or towards payment pari passu and rateably of all Periodic Distribution Amounts (including Additional Amounts) due but unpaid;

(iii) third, only if such payment is due on a date fixed for payment of the Dissolution Distribution Amount, in or towards payment pari passu and rateably of the Dissolution Distribution Amount; and

(iv) fourth, only after all amounts required to be paid in respect of the Sukuk have been discharged in full, in payment of any residual amount to the Issuer, or prior to the Mudaraba End Date, the Mudaraba Reserve.

6. PERIODIC DISTRIBUTIONS

6.1 Periodic Distribution Amounts

Subject to Conditions 4.2 (Subordination), 6.2 (Cessation of Accrual), 7 (Periodic Distribution Restrictions), 8 (Payments) and 10 (Write-down at the Point of Non-Viability), the Issuer shall distribute to the Sukukholders on each Periodic Distribution Date pro rata to their respective holdings, out of amounts transferred into the Transaction Account, a distribution in relation to the Sukuk equal to the applicable Periodic Distribution Amount.

The "**Periodic Distribution Amount**" payable on each Periodic Distribution Date:

(i) for the Initial Period shall be an amount equal to the Initial Periodic Distribution Amount as specified in the Applicable Final Terms; and

(ii) during each Reset Period (if any) shall be the relevant amount calculated in accordance with the provisions of Condition 6.3 (Periodic Distributions).

6.2 Cessation of Accrual

Subject to Conditions 4.2 (Subordination), 7 (Periodic Distribution Restrictions) and 10 (Write-down at the Point of Non-Viability), each Sak will cease to be eligible to earn Periodic Distribution Amounts from (and including) the due date for redemption thereof pursuant to Condition 9.1 (Redemption), following liquidation of the Mudaraba in accordance with these Conditions and the Master Mudaraba Agreement.

6.3 Periodic Distributions

(i) Subject to Condition 7 (Periodic Distribution Restrictions), the Sukuk bear profit at the applicable Profit Rate from (and including) the Issue Date in accordance with the provisions of this Condition 6 (Periodic Distributions). Periodic Distribution Amounts will not be cumulative and Periodic Distribution Amounts (if any) which are not paid will not accumulate or compound and Sukukholders will have no right to receive such Periodic Distribution Amount at any time, even if Periodic Distribution Amounts are paid in the future.

(ii) If the Issuer makes a Non-Payment Election or a Non-Payment Event occurs, Periodic Distribution Amounts (if any) which are not paid to the Sukukholders shall be credited by the Issuer to the Mudaraba Reserve and re-invested by the Issuer in the same manner as it invested the Mudaraba Capital in accordance with the investment plan set out in the Master Mudaraba Agreement.

(iii) Subject to Condition 7 (Periodic Distribution Restrictions), Periodic Distribution Amounts shall be payable on the Sukuk in arrear on each Periodic Distribution Date in respect of the Periodic Distribution Period ending on such date, commencing on the First Periodic Distribution Date, in each case as provided in this Condition 6 (Periodic Distributions).

(iv) If a Periodic Distribution Amount is required to be calculated in respect of a period of less than a full Periodic Distribution Period (the "**Relevant Period**"), it shall be calculated as an amount equal to the product of: (a) the applicable Profit Rate; (b) the Aggregate Nominal Amount of the Sukuk then outstanding; and (c) the applicable Day-count Fraction for the Relevant Period, rounding the resultant figure to the nearest ten thousandth of a percentage point (0.00005 being rounded upwards).

6.4 Periodic Distribution Rate

(i) For the Initial Period, the Sukuk shall bear profit at the Initial Periodic Distribution Rate.

(ii) The Profit Rate will be reset on each Reset Date on the basis of the aggregate of the Margin and the Relevant Reset Rate on the relevant Determination Date, as determined by the Payment Administrator. The Sukuk shall bear profit in respect of each Periodic Distribution Period falling within the relevant Reset Period at a rate per annum which shall be equal to the Relevant Reset Rate plus the applicable Margin corresponding to such Reset Period. Such profit shall be payable in arrear on each relevant Periodic Distribution Date, commencing on the First Reset Periodic Distribution Date.

6.5 Determination of Profit Rate and Periodic Distribution Amount

The Payment Administrator will, as soon as practicable after approximately 12.00 p.m. (Riyadh time) on each Determination Date, determine the Profit Rate in respect of the relevant Reset Period and cause the applicable Profit Rate and the corresponding Periodic Distribution Amount to be notified to the Issuer, the Sukukholders' Agent and the Sukukholders in accordance with the Master Declaration of Agency and Condition 14 (Notices), respectively, as soon as possible after their determination but in no event later than the second Business Day thereafter.

6.6 Payment Administrator

(i) With effect from the Issue Date, and for so long as any Sukuk remain outstanding thereafter, the Issuer will maintain a Payment Administrator.

(ii) The Issuer may, following consultation with the Sukukholders' Agent, from time to time replace the Payment Administrator with another leading investment, merchant or commercial bank or financial institution in the Kingdom. If the Payment Administrator is unable or unwilling to continue to act as the Payment Administrator or (without prejudice to Condition 6.7 (Determinations of the Payment Administrator Binding)) fails duly to determine the Profit Rate in respect of any Reset Period as provided in Condition 6.4(ii) (Periodic Distribution Rate), the Issuer shall, following consultation with the Sukukholders' Agent, forthwith appoint another leading investment, merchant or commercial bank or financial institution in the Kingdom to act as such in its place. The Payment Administrator may not resign its duties or be removed without a successor having been appointed as aforesaid.

6.7 Determinations of the Payment Administrator Binding

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 6 (Periodic Distributions) by the Payment Administrator shall (in the absence of gross negligence, wilful misconduct, fraud or manifest error) be binding on the Issuer, the Sukukholders' Agent and all Sukukholders and (subject as aforesaid) no liability to any such person shall attach to the Payment Administrator in connection with the exercise or non-exercise by it of any of its powers, duties and discretions under this Condition 6 (Periodic Distributions).

7. PERIODIC DISTRIBUTION RESTRICTIONS

7.1 Non-Payment Event

Notwithstanding Condition 6.3 (Periodic Distributions), if any of the following events occur (each, a "**Non-Payment Event**"), the Issuer (as Mudareb) shall not pay Mudaraba Profit (and, as a result, Rab-al-Maal Mudaraba Profit) or Final Mudaraba Profit (and, as a result, Rab-al-Maal Final Mudaraba Profit) on any Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be), and as a result thereof the Issuer shall not pay Periodic Distribution Amounts on the corresponding Periodic Distribution Date:

(i) the amount equal to the then applicable Periodic Distribution Amount (which for the purposes of these Conditions includes Additional Amounts as referred to in Condition 12 (Taxation)) to be paid by the Issuer out of the Rab-al-Maal Mudaraba Profit or the Rab-al-Maal Final Mudaraba Profit, as applicable (the "**Relevant Rab-al-Maal Mudaraba Profit Amounts**"), when aggregated with any distributions or amounts payable by the Issuer (in its capacity as Mudareb or otherwise) on the same date (or otherwise due and payable on such date) on any other obligations in respect of Pari Passu Obligations and Junior Obligations, exceeds, on the relevant date for payment of the Relevant Rab-al-Maal Mudaraba Profit Amount or Periodic Distribution Amount, the Distributable Profits; or

(ii) the Issuer (in its capacity as Mudareb or otherwise) is, on that Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be), in breach of (or such payment would cause a breach of) the Applicable Regulatory Capital Requirements (including any payment restrictions due to a breach of any applicable capital buffers imposed on the Issuer by the Financial Regulator); or

(iii) the Financial Regulator requires the Issuer not to pay: (a) the Relevant Rab-al-Maal Mudaraba Profit Amount on that Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be); or (b) the relevant Periodic Distribution Amount on that Periodic Distribution Date, in each case, on account of the Issuer making a net loss during the relevant financial period or for any other reason as it may deem necessary.

7.2 Non-Payment Election

Notwithstanding Condition 6.3 (Periodic Distributions), the Issuer may in its sole discretion elect that Rab-al-Maal Mudaraba Profit (in whole or in part) will not be paid on any Mudaraba Profit Distribution Date, and, in each such case, the Issuer shall not make payment of a Periodic Distribution Amount (in whole or in part) to the Sukukholders on the corresponding Periodic Distribution Date, **provided that** the foregoing in this Condition 7.2 (Non-Payment Election) shall not apply in respect of Rab-al-Maal Final Mudaraba Profit payable on any Mudaraba End Date (any such election being a "**Non-Payment Election**"). The Issuer may not, however, make a Non-Payment Election once it has given notice to Sukukholders that the Sukuk will be redeemed in whole in accordance with Condition 9 (Redemption).

7.3 Effect of Non-Payment Event or Non-Payment Election

(a) If the Issuer makes a Non-Payment Election or a Non-Payment Event occurs, then the Issuer shall: (i) in the case of a Non-Payment Election, no later than seven calendar days prior to such event; and (ii) in the case of a Non-Payment Event, as soon as practicable thereafter but in any case (except where the relevant Non-Payment Event occurs during such period) no later than five Business Days prior to the relevant Mudaraba Profit Distribution Date or Mudaraba End Date, as the case may be, give notice to the Sukukholders' Agent in accordance with the Master Mudaraba Agreement and to the Sukukholders in accordance with Condition 14 (Notices) in each case providing details of the Non-Payment Election (including, if relevant, details of any partial payment to be made) or Non-Payment Event, as the case may be. However, any failure to provide such notice will not invalidate the cancellation of the relevant payment of the Periodic Distribution Amount.

(b) In the absence of notice of such Non-Payment Election or Non-Payment Event, as the case may be, having been given in accordance with this Condition 7.3 (Effect of Non-Payment Event or Non-Payment Election), the fact of non-payment of the Relevant Rab-al-Maal Mudaraba Profit Amount (or any part thereof) on the relevant Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be) shall be evidence of the occurrence of a Non-Payment Election or a Non-Payment Event, as the case may be. Sukukholders shall have no claim in respect of any Periodic Distribution Amount (or any part thereof, as applicable) not paid as a result of either a Non-Payment Election or a Non-Payment Event (in each case, irrespective of whether notice of such Non-Payment Election or Non-Payment Event has been given in accordance with this Condition 7.3 (Effect of Non-Payment Event or Non-Payment Election)) and any such non-payment in whole or in part, as applicable, of Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit (in the case of a Non-Payment Event only) or a Periodic Distribution Amount in such circumstance shall not constitute an Event of Default. The Issuer shall not have any obligation to make any subsequent payment in respect of any such unpaid profit (or any part thereof, as applicable) (whether from its own cash resources, from the Mudaraba Reserve or otherwise), which shall be credited by the Issuer to the Mudaraba Reserve in accordance with the terms of the Master Mudaraba Agreement).

7.4 Dividend and Redemption Restrictions

If any amount of Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit or Periodic Distribution Amount is not paid as a consequence of a Non-Payment Election or a Non-Payment Event pursuant to Condition 7.1 (Non-Payment Event) or 7.2 (Non-Payment Election) (as the case may be), then, from the date of such Non-Payment Election or Non-Payment Event (the "**Dividend Stopper Date**"), the Issuer will not, so long as any of the Sukuk are outstanding:

(a) declare or pay any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on, Ordinary Shares issued by the Issuer (other than to the extent that any such distribution, dividend or other payment is declared before such Dividend Stopper Date); or

(b) declare or pay profit or any other distribution on any of its Other Common Equity Tier 1 Instruments or securities ranking, as to the right of payment of dividend, distributions or similar payments, junior to or pari passu with the Relevant Obligations (excluding securities the terms of which do not at the relevant time enable the Issuer to defer or otherwise not to make such payment), only to the extent such restriction on payment or distribution is permitted under the relevant regulatory criteria for Tier 1 Capital applicable from time to time; or

(c) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire any Ordinary Shares issued by the Issuer; or

(d) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire Other Common Equity Tier 1 Instruments or any securities issued by the Issuer ranking, as to the right of repayment of capital, junior to or pari passu with the Relevant Obligations (excluding securities the terms of which stipulate: (i) any mandatory redemption in accordance with its terms; or (ii) any conversion into, or exchange for, Ordinary Shares), only to the extent such restriction on redemption, purchase, cancellation, reduction or acquisition is permitted under the relevant regulatory criteria for Tier 1 Capital applicable from time to time,

in each case unless or until: (i) the next following payment of Rab-al-Maal Mudaraba Profit; or (ii) (as the case may be) payment of the Rab-al-Maal Final Mudaraba Profit, in each case following the Dividend Stopper Date, has been made in full (or an amount equal to the same has been duly set aside or provided for in full for the benefit of the Sukukholders in accordance with the Master Mudaraba Agreement).

8. PAYMENTS

8.1 Payments in respect of the Sukuk

(a) Subject to Condition 8.2 (Payments subject to Applicable Laws), payment of the Dissolution Distribution Amount and Periodic Distribution Amounts (if any) will be made by or on behalf of the Issuer in SAR by wire transfer in same day funds to the Registered Account (as defined below) of the Sukukholder. The Dissolution Distribution Amount and each Periodic Distribution Amount will be paid to the Sukukholder shown on the Register at the close of business on the relevant Record Date.

(b) All payments made by the Issuer into the Transaction Account pursuant to the Master Mudaraba Agreement shall be valid and, to the extent of the sums so paid, effective to satisfy and discharge the Issuer's liability for monies payable by it to or to the order of the Sukukholders pursuant to the Master Mudaraba Agreement and these Conditions.

(c) For the purposes of this Condition 8 (Payments), a Sukukholder's "**Registered Account**" means the SAR account maintained by or on behalf of such Sukukholder with a bank in the Kingdom as notified in writing to the Registrar not later than the relevant Record Date.

8.2 Payments subject to Applicable Laws

Payments in respect of the Sukuk are subject in all cases to: (a) any applicable fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 12 (Taxation); and (b) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 12 (Taxation)) any law implementing an intergovernmental approach thereto.

8.3 Payment only on a Business Day

(a) Where payment is to be made by transfer to a Registered Account, payment instructions shall be issued (for value the due date or, if the due date is not a Business Day, for value the first following day which is a Business Day provided however, that if any such day is not a Business Day that falls in the same month as the due date, the holder shall be entitled to payment on the immediately preceding Business Day in that month) by the Issuer on the due date for payment.

(b) The Sukukholders will not be entitled to any distribution or other payment in respect of any delay in payment resulting from the due date for a payment not being a Business Day.

8.4 Agents

The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents **provided that** it will at all times maintain a Payment Administrator and a Registrar. Notice of any termination or appointment will be given to Sukukholders promptly by the Issuer in accordance with Condition 14 (Notices).

9. REDEMPTION

9.1 Redemption

(a) No Fixed Redemption Date and Conditions for Redemption

The Sukuk are perpetual securities in respect of which there is no fixed redemption date and the Issuer shall (subject to the provisions of Condition 4.2 (Subordination), Condition 10 (Write-down at the Point of Non-Viability) and Condition 11.2 (Winding-up, dissolution or liquidation) only have the right to redeem the Sukuk in accordance with the following provisions of this Condition 9 (Redemption).

The redemption of the Sukuk, pursuant to this Condition 9 (Redemption), is subject to the following conditions (in addition to those set out elsewhere in this Condition 9.1 (Redemption)):

(i) (except to the extent that the Financial Regulator and/or the Capital Regulations no longer so requires) the Issuer having obtained the prior consent of the Financial Regulator;

(ii) (except to the extent that the Financial Regulator and/or the Capital Regulations no longer so requires) at the time when the relevant notice of redemption is given, the Issuer being in compliance with the Applicable Regulatory Capital Requirements;

(iii) (except to the extent that the Financial Regulator and/or the Capital Regulations no longer so requires) immediately following such redemption, the Issuer being in compliance with the Applicable Regulatory Capital Requirements; and

(iv) (in the case of a redemption pursuant to Conditions 9.1(c) (Redemption due to Taxation) or 9.1(d) (Redemption for Capital Event) only) the Tax Law Change or Capital Event, as the case may be, having become, or becoming, effective on or after the Issue Date.

(b) Issuer's Call Option

(i) Subject to Condition 9.1(a) (No Fixed Redemption Date and Conditions for Redemption), this Condition 9.1(b) (Issuer's Call Option) and Condition 9.1(e) (No redemption following delivery of a Non-Viability Notice), the Issuer may, by giving not less than 10 nor more than 15 days' prior notice to the Sukukholders in accordance with Condition 14 (Notices) (the "**Issuer Call Redemption Notice**"), which notice shall be irrevocable, elect to redeem all, but not some only, of the Sukuk at the Issuer Call Amount.

(ii) If this Condition 9.1(b)(ii) is marked as applicable in the Applicable Final Terms, redemption of the Sukuk pursuant to this Condition 9.1(b) (Issuer's Call Option) may only occur on any date during the period commencing (and including) the First Call Date to (and including) the First Reset Date or any Periodic Distribution Date thereafter (each a "**Call Date**") such Call Date to be specified in the Issuer Call Redemption Notice.

(iii) If this Condition 9.1(b)(iii) is marked as applicable in the Applicable Final Terms, redemption of the Sukuk pursuant to this Condition 9.1(b) (Issuer's Call Option) may only occur on the First Call Date or any Periodic Distribution Date thereafter (each a "**Call Date**") such Call Date to be specified in the Issuer Call Redemption Notice.

(iv) Prior to the publication of any Issuer Call Redemption Notice pursuant to this Condition 9.1(b) (Issuer's Call Option), the Issuer shall give to the Sukukholders' Agent a certificate signed by two Authorised Signatories stating that all conditions precedent to the redemption of the Sukuk pursuant to this Condition 9.1(b) (Issuer's Call Option) (other than the notice to Sukukholders described in this Condition 9.1(b) (Issuer's Call Option)) have been satisfied (upon which the Sukukholders' Agent may rely without further enquiry and without liability to any person), and the Sukukholders' Agent shall accept the certificate without any further enquiry as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Sukukholders.

(c) Redemption due to Taxation

(i) Subject to Condition 9.1(a) (No Fixed Redemption Date and Conditions for Redemption), this Condition 9.1(c) (Redemption due to Taxation) and Condition 9.1(e) (No redemption following delivery of a Non-Viability Notice), if a Tax Event occurs, the Issuer may, by giving not less than 10 nor more than 15 days' prior notice to the Sukukholders in accordance with Condition 14 (Notices), which notice shall be irrevocable, elect to redeem all, but not some only, of the Sukuk at the Tax Event Redemption Amount. No such notice shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay Additional Amounts or additional amounts under clause 6.10 of the Master Mudaraba Agreement. If the Issuer does not redeem in accordance with this Condition 9.1(c) (Redemption due to Taxation) in respect of such Tax Event then the Sukuk shall continue to be perpetual securities in respect of which there is no fixed redemption date unless the Issuer shall otherwise (subject to the provisions of Condition 4.2 (Subordination), Condition 10 (Write-down at the Point of Non-Viability) and Condition 11.2 (Winding-up, dissolution or liquidation) redeem the Sukuk in accordance with the provisions of this Condition 9 (Redemption).

(ii) Redemption of the Sukuk pursuant to this Condition 9.1(c) (Redemption due to Taxation) may occur on any date on or after the Issue Date (whether or not a Periodic Distribution Date).

(iii) Prior to the delivery of any notice of redemption pursuant to this Condition 9.1(c) (Redemption due to Taxation), the Issuer shall give to the Sukukholders' Agent: (i) a certificate signed by two Authorised Signatories of the Issuer (upon which the Sukukholders' Agent may rely without liability to any person) stating that: (A) the conditions set out in Condition 9.1(a) (No Fixed Redemption Date and Conditions for Redemption) have been satisfied; and (B) a Tax Event has occurred; (ii) an opinion of an independent tax adviser of recognised standing to the effect that the Issuer would, as a result of the Tax Law Change, be required to pay Additional Amounts; and (iii) a copy of the Financial Regulator's written approval for redemption of the Sukuk. Such certificate and opinion shall be conclusive and binding evidence of the satisfaction of the conditions precedent set out above in this Condition 9.1(c) (Redemption due to Taxation) and the Sukukholders' Agent shall be entitled to accept and rely on such certificate and opinion without any further inquiry as sufficient evidence of the satisfaction of such conditions precedent without liability to any person. Upon expiry of such notice, the Issuer shall redeem the Sukuk.

(d) Redemption for Capital Event

(i) Subject to Condition 9.1(a) (No Fixed Redemption Date and Conditions for Redemption), this Condition 9.1(d) (Redemption for Capital Event) and Condition 9.1(e) (No redemption following delivery of a Non-Viability Notice), if a Capital Event occurs and is continuing, the Issuer may, by giving not less than 10 nor more than 15 days' prior notice to the Sukukholders in accordance with Condition 14 (Notices), which notice shall be irrevocable, elect to redeem all, but not some only, of the Sukuk at the Capital Event Redemption Amount. If the Issuer does not redeem in accordance with this Condition 9.1(d) (Redemption for Capital Event) in respect of such Capital Event then the Sukuk shall continue to be perpetual securities in respect of which there is no fixed redemption date unless the Issuer shall otherwise (subject to the provisions of Condition 4.2 (Subordination), Condition 10 (Write-down at the Point of Non-Viability) and Condition 11.2 (Winding-up, dissolution or liquidation) redeem the Sukuk in accordance with the provisions of this Condition 9 (Redemption).

(ii) Redemption of the Sukuk pursuant to this Condition 9.1(d) (Redemption for Capital Event) may occur on any date on or after the Issue Date (whether or not a Periodic Distribution Date).

(iii) Prior to the delivery of any notice of redemption pursuant to this Condition 9.1(d) (Redemption for Capital Event), the Issuer shall give to the Sukukholders' Agent: (i) a certificate signed by two Authorised Signatories of the Issuer (upon which the Sukukholders' Agent may rely without liability to any person) stating that: (A) the conditions set out in Condition 9.1(a) (No Fixed Redemption Date and Conditions for Redemption) have been satisfied; (B) a Capital Event has occurred and is continuing; and (C) if applicable, a copy of the notice received from the Financial Regulator to the effect that a Capital Event has occurred and is continuing and approving the redemption of the Sukuk. Such certificate and opinion shall be conclusive and binding evidence of the satisfaction of the conditions precedent set out above in this Condition 9.1(d) (Redemption for Capital Event) and the Sukukholders' Agent shall be entitled to accept and rely on such certificate and opinion without any further inquiry as sufficient evidence of the satisfaction of such conditions precedent without liability to any person. Upon expiry of such notice, the Issuer shall redeem the Sukuk.

(e) No redemption following delivery of a Non-Viability Notice

If the Issuer gives a notice of redemption in accordance with this Condition 9 (Redemption) and, after giving such notice but prior to the relevant redemption date specified in such notice, a Non-Viability Event occurs, the relevant notice of redemption shall be automatically rescinded and shall be of no force and effect, the Sukuk will not be redeemed on the scheduled date of redemption and instead a Write-down shall occur in accordance with Condition 10 (Write-down at the Point of Non-Viability).

9.2 Purchase

Subject to the Issuer: (a) obtaining the prior written consent of the Financial Regulator; (except to the extent that the Financial Regulator no longer so requires); and (b) being in compliance with the Applicable Regulatory Capital Requirements at the time of purchase, the Issuer or any of its Subsidiaries, may purchase the Sukuk at such price(s) and upon such other conditions as may be agreed upon between the Issuer or the relevant Subsidiary (as the case may be) and the relevant Sukukholders(s). Upon any such purchase, the Issuer shall deliver such Sukuk to the Registrar for cancellation and, upon such cancellation, the Mudaraba Capital and the Dissolution Distribution Amount shall be reduced by the nominal amount of the Sukuk so cancelled.

9.3 Cancellation

All Sukuk that are redeemed, and all Sukuk that are purchased pursuant to Condition 9.2 (Purchase) and which the Issuer delivers for cancellation in accordance with Condition 9.2 (Purchase), will be cancelled as soon as possible and accordingly may not be held, reissued or resold.

10. WRITE-DOWN AT THE POINT OF NON-VIABILITY

10.1 Effectiveness

The provisions of this Condition 10 (Write-down at the Point of Non-Viability) will lapse and cease to apply with effect from (and including) the date on which the Applicable Statutory Loss Absorption Regime becomes effective in respect of the Sukuk (the "**Effective Date**"), except to the extent such provisions are required by the Applicable Statutory Loss Absorption Regime. Forthwith following the occurrence of the Effective Date, the Issuer shall give notice of such occurrence to the Sukukholders' Agent in accordance with the Master Mudaraba Agreement and to the Sukukholders in accordance with Condition 14 (Notices). If the Issuer becomes Non-Viable on or after the Effective Date, the Financial Regulator (or the Issuer on instructions from the Financial Regulator) may take such action in respect of the Sukuk as is required or permitted by such Applicable Statutory Loss Absorption Regime.

10.2 Non-Viability Event

If a Non-Viability Event occurs at any time on or after the Issue Date and prior to the Effective Date, a Write-down (in whole or in part, as applicable) will take place in accordance with Condition 10.3 (Non- Viability Notice).

10.3 Non-Viability Notice

(a) On the third Business Day following the date on which such Non-Viability Event occurs (or on such earlier date as determined by the Financial Regulator), the Issuer will notify the Sukukholders' Agent and the Sukukholders thereof in accordance with the Master Mudaraba Agreement and Condition 14 (Notices) (a "**Non-Viability Notice**").

(b) Such Non-Viability Notice shall:

(i) state that a Non-Viability Event has occurred;

(ii) state that a Write-down will take place and, following guidance from the Financial Regulator, whether such Write-down will be a full or partial Write-down;

(iii) specify, in the case of a partial Write-down, the amount as determined by the Financial Regulator and notified to the Issuer by which the Aggregate Nominal Amount of the Sukuk then outstanding is to be Written-down;

(iv) specify, in the case of a full Write-down, that the Issuer has received written confirmation from the Financial Regulator that the Financial Regulator has determined the principal notional amount of the Sukuk Assets to be zero; and

(v) specify the Non-Viability Event Write-down Date.

(c) A Write-down will occur on the Non-Viability Event Write-down Date.

(d) In the case of a Write-down in full of all Sukuk then outstanding, the Master Mudaraba Agreement will be automatically terminated with effect from the Non-Viability Event Write-down Date and neither the Sukukholders nor the Sukukholders' Agent shall be entitled to any claim for any amounts in connection with the Mudaraba Assets.

(e) In the case of a Write-down in part only, the Mudaraba Capital shall be reduced in proportion to the Aggregate Nominal Amount of the Sukuk to be Written-down and neither the Sukukholders nor the Sukukholders' Agent shall be entitled to any claim for any amounts in connection with the Mudaraba Assets that relate to the proportion of the Mudaraba Capital that has been reduced.

10.4 Liability of Sukukholders' Agent and Agents

Neither the Sukukholders' Agent nor any Agent shall have any responsibility for, or liability or obligation in respect of, any loss, claim or demand incurred as a result of or in connection with a Non-Viability Event (or its disapplication, if applicable) or any consequent Write-down and/or cancellation of any Sukuk or termination of the Master Mudaraba Agreement or any claims in respect thereof, and the Sukukholders' Agent and the Agents shall not be responsible for any calculation, determination or the verification of any calculation or determination in connection with the foregoing.

11. EVENTS OF DEFAULT AND WINDING-UP

11.1 Events of Default

If an Event of Default occurs and is continuing, the Sukukholders' Agent (provided it shall have been given notice in writing thereof) shall promptly give notice of the occurrence of such Event of Default to the Sukukholders in accordance with Condition 14 (Notices) with a request to the Sukukholders to indicate to the Sukukholders' Agent in writing if they wish the Sukuk to be redeemed in whole (a "**Dissolution Request**"). The Sukukholders' Agent may and, if so requested: (i) by an Extraordinary Resolution; or (ii) in writing by Sukukholders who hold at least 25 per cent. of the aggregate nominal amount of Sukuk then outstanding, shall (but in each case subject to Condition 11.2(e)(iii) (Realisation of Sukuk Assets)) (or, if permitted to do so in accordance with Condition 11.2(e)(iii) (Realisation of Sukuk Assets)), the relevant Sukukholder(s) may, give notice (a "**Dissolution Notice**") to the Issuer that the Sukuk are immediately due and payable at the aggregate nominal amount of the outstanding Sukuk together with any Outstanding Payments, whereupon the aggregate nominal amount of the outstanding Sukuk together with any Outstanding Payments shall become immediately due and payable without presentation, demand, protest or other notice of any kind, **provided, however, that** the Sukukholders' Agent may only take any such steps, actions or proceedings as described in Condition 11.2(a) (Proceedings for Winding-up), but may take no further or other steps, actions or proceedings to enforce, prove or claim for any such payment. A Dissolution Notice may be given whether or not a Dissolution Request has been given to the Sukukholders.

11.2 Winding-up, dissolution or liquidation

(a) Proceedings for Winding-up

If an Event of Default occurs and a Dissolution Notice is delivered pursuant to Condition 11.1 (Events of Default), the Mudaraba will be liquidated in accordance with the provisions of the Master Mudaraba Agreement and the Sukukholders' Agent may at its discretion, and shall in each case subject to Condition 11.2(e)(i) (Realisation of Sukuk Assets) if so requested by an Extraordinary Resolution or so requested in writing by Sukukholders who hold at least 25 per cent. of the aggregate nominal amount of Sukuk then outstanding: (i) institute any steps, actions or proceedings for the winding-up of the Issuer; and/or (ii) prove in the winding-up of the Issuer; and/or (iii) institute any steps, actions or proceedings for the bankruptcy of the Issuer; and/or (iv) claim in the liquidation of the Issuer; and/or (v) take such other steps, actions or proceedings which, under Saudi Law, have an analogous effect to the actions referred to in (i) to (iv) above, in each case, for (subject as set out below) all amounts of Mudaraba Capital, Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit and/or other amounts due to or to the order of the Sukukholders on termination of the Master Mudaraba Agreement in accordance with its terms and the terms of the other Transaction Documents, **provided, however, that** the Sukukholders' Agent, or the relevant Sukukholder(s), as applicable, may only take any such steps, actions or proceedings as described in this Condition 11.2(a) (Proceedings for Winding-up), but may take no further or other steps, actions or proceedings to enforce, prove or claim for any payment and **provided further that** the Sukukholders' Agent or the relevant Sukukholder(s), as applicable, may not take any steps, actions or proceedings against the Issuer with respect to any sum that the Issuer has paid into the Transaction Account in accordance with the Transaction Documents in circumstances where the Payment Administrator has failed to pay that amount to Sukukholders in accordance with these Conditions.

No payment in respect of the Transaction Documents may be made by the Issuer as a result of any steps, actions or proceedings taken pursuant to Condition 11.1 (Events of Default), nor will the Sukukholders accept the same, otherwise than during or after a winding-up (or analogous event) of the Issuer, unless the Issuer has given prior written notice (with a copy to the Sukukholders' Agent) to, and received no objection from, the Financial Regulator (which the Issuer shall confirm in writing to the Sukukholders' Agent).

(b) Enforcement

Without prejudice to Condition 11.1 (Events of Default) and the remaining provisions of this Condition 11.2 (Winding-up, Dissolution or Liquidation), the Sukukholders' Agent may, at its discretion, and shall, if so requested, in each case subject to Condition 11.2(e)(i) (Realisation of Sukuk Assets): (i) by an Extraordinary Resolution; or (ii) in writing by Sukukholders who hold at least 25 per cent. of the aggregate nominal amount of Sukuk then outstanding, and without further notice, institute such steps, actions or proceedings against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Sukuk and the Transaction Documents (other than any payment obligation of the Issuer under or arising from the Transaction Documents, including, without limitation, payment of any principal or premium or satisfaction of any payments in respect of the Transaction Documents, including any damages awarded for breach of any obligations). However, in no event shall the Issuer, by virtue of the institution of any such steps, actions or proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it in accordance with the Transaction Documents. Nothing in this Condition 11.2 (Winding-up, Dissolution or Liquidation) shall, however, prevent the Sukukholders' Agent or the relevant Sukukholder(s), as applicable, from taking such steps, actions or proceedings as described in Condition 11.2(a) (Proceedings for Winding-up) in respect of any payment obligations of the Issuer arising from the Master Mudaraba Agreement or any other Transaction Document (including any damages awarded for breach of any obligations).

(c) Non-Viability

All claims by the Sukukholders' Agent and/or the Sukukholders against the Issuer under the Sukuk and the Transaction Documents (including, without limitation, any claim in relation to any unsatisfied payment obligation of the Issuer under the Sukuk or the Transaction Documents, as the case may be) shall be subject to, and shall be superseded by the provisions of Condition 10 (Write-down at the Point of Non-Viability), irrespective of whether the relevant Non-Viability Event occurs prior to or after the event which is the subject matter of the claim, **provided that** nothing in these Conditions shall affect or prejudice the payment of the costs, charges, expenses, liabilities, indemnities or remuneration of the Sukukholders' Agent or the rights and remedies of the Sukukholders' Agent in respect thereof, all of which shall accordingly remain unsubordinated.

(d) Extent of Sukukholder remedy

No remedy against the Issuer, other than as referred to in this Condition 11 (Events of Default and Winding-up), shall be available to the Sukukholders' Agent or the Sukukholders, whether for the recovery of amounts owing in respect of these Conditions or the Transaction Documents or in respect of any breach by the Issuer of any of its other obligations under or in respect of these Conditions or the Transaction Documents.

(e) Realisation of Sukuk Assets

(i) The Sukukholders' Agent may at any time at its absolute discretion and without notice, take such actions, stops or proceedings as it may think fit to enforce the provisions of the Sukuk but it shall not be bound to take any steps, actions or proceedings to enforce or to realise the Sukuk Assets or any of the actions, steps or proceedings referred to in these Conditions in respect of the Issuer to enforce the terms of the Sukuk or the Transaction Documents or give a Dissolution Notice (including, without limitation, pursuant to this Condition 11 (Events of Default and Winding-up)), unless directed or requested to do so: (a) by an Extraordinary Resolution; or (b) in writing by Sukukholders who hold at least 25 per cent. of the aggregate nominal amount of Sukuk then outstanding, and in either case, then only if it shall have been indemnified and/or secured to its satisfaction and the Sukukholders' Agent shall not be liable for the consequences of exercising its discretion or taking such steps, actions or proceedings and may do so without having regard to the effect of such action on individual Sukukholders.

(ii) No Sukukholder shall be entitled to proceed directly against the Issuer or to take the actions, steps or proceedings referred to in Conditions 11.2(a) (Proceedings for Winding-up) and 11.2(b) (Enforcement) above, unless: (a) the Sukukholders' Agent, having become bound so to proceed, fails to do so within 60 days of being directed to do so in accordance with this Condition 11 (Events of Default and Winding-up) and such failure is continuing; or (b) is unable by reason of an order of a court having competent jurisdiction to do so, and all cases, the relevant Sukukholder (or such Sukukholder together with the other Sukukholders who propose to proceed directly against any of the Sukukholders' Agent or the Issuer, as the case may be) holds at least 25 per cent. of the then outstanding aggregate nominal amount of the Sukuk, in which case the Sukukholders shall have only such rights against the Issuer as those which the Sukukholders' Agent is entitled to exercise as set out in Condition 11.1 (Events of Default) and this Condition 11.2 (Winding-up, Dissolution or Liquidation).

(iii) Under no circumstances shall the Sukukholders' Agent or any Sukukholder have any right to cause the sale or other disposition of any of the Sukuk Assets (other than as expressly contemplated in the Transaction Documents) and the sole right of the Sukukholders' Agent and the Sukukholders against the Issuer shall be to enforce or demand the enforcement of the obligations of the Issuer to pay the amounts due to or to the order of the Sukukholders under the Transaction Documents.

12. TAXATION

12.1 All payments in respect of the Sukuk shall be made free and clear of and without withholding for any taxes imposed, levied, collected, withheld or assessed by or on behalf of the Kingdom or any political subdivision or authority thereof or therein having the power to tax ("**Taxes**"), unless the withholding or deduction of the Taxes is required by law. In such event, the Issuer will pay additional amounts ("**Additional Amounts**") so that the full amount which otherwise would have been due and payable under the Sukuk is received by the parties entitled thereto provided that no such Additional Amount shall be payable to any Sukukholder that is not, or at any time ceases to be, a Qualified Person.

12.2 In these Conditions, references to the Dissolution Distribution Amount or Periodic Distribution Amounts (if any) (and related expressions including, without limitation, the "**nominal amount**" of the Sukuk, Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit and "**Outstanding Payments**") shall be deemed to include any Additional Amounts payable under this Condition 12 (Taxation) or any undertaking given in addition to or in substitution for it under the Master Declaration of Agency.

12.3 Notwithstanding any other provision in these Conditions, the Issuer and the Agents shall be permitted to withhold or deduct any amounts imposed pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof), or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof, implementing legislation adopted by another jurisdiction in connection with these provisions, or any agreement with the U.S. Internal Revenue Service (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a "**FATCA withholding**"). None of the Issuer or any Agent will have any obligation to pay Additional Amounts or otherwise indemnify a Sukukholder for any FATCA withholding deducted or withheld by the Issuer, the Payment Administrator or any other party as a result of any person not being entitled to receive payments free of FATCA withholding.

13. SUKUKHOLDERS' AGENT

13.1 Indemnification

The Master Declaration of Agency contains provisions for the indemnification of the Sukukholders' Agent for incurred costs and expenses in certain circumstances and for its relief from responsibility, including provisions relieving it from taking any action, step or proceeding unless indemnified and/or secured to its satisfaction by the Sukukholders. In particular, but without limitation, in connection with the exercise of any of its rights in respect of the Sukuk Assets or any other right it may have pursuant to the Master Declaration of Agency or the other Transaction Documents, the Sukukholders' Agent shall in no circumstances be bound to take any action, step or proceeding unless so directed in accordance with Condition 11 (Events of Default and Winding-up), and then only if it shall also have been indemnified and/or secured and/or prefunded to its satisfaction.

13.2 No Liability

(i) The Sukukholders' Agent makes no representation as to and assumes no responsibility for the validity, sufficiency or enforceability of the obligations of the Issuer under the Transaction Documents to which the Issuer is a party and shall not under any circumstances have any liability or be obliged to account to the Sukukholders in respect of any payments which should have been made by the Issuer but are not so made and shall not in any circumstances have any liability arising from the Sukuk Assets other than as expressly provided in these Conditions or in the Master Declaration of Agency.

(ii) The Sukukholders' Agent is exempted from: (i) any liability in respect of any loss or theft of the Sukuk Assets or any cash;

(iii) any obligation to insure the Sukuk Assets or any cash; (iii) any claim arising from the fact that the Sukuk Assets are, or any cash is, held by or on behalf of the Sukukholders' Agent or on deposit; and (iv) any liability for any loss incurred as a result of any non-payment of any amount due to the Sukukholders in respect of the Sukuk, unless such loss or theft arises as a result of its actual fraud, wilful default or gross negligence.

14. NOTICES

All notices to the Sukukholders: (a) (in the case of a notice to convene a meeting of Sukukholders) shall be sent at least 25 calendar days prior to the date set for the initial meeting and at least 30 calendar days prior to the date set for any adjourned meeting; and (b) (in all cases) shall be valid if sent to the Sukukholders by registered mail to their respective addresses in the Register. Any such notice shall be deemed to have been given on the fifth day after the date of mailing.

15. MEETINGS OF SUKUKHOLDERS; MODIFICATION

15.1 Meetings of Sukukholders

The Master Declaration of Agency contains provisions for convening meetings of Sukukholders to consider any matter affecting their interests, including the sanctioning by an Extraordinary Resolution of a modification of these Conditions or any relevant provision of the Master Declaration of Agency or any other Transaction Document, subject to also obtaining the Issuer's approval. Such a meeting may be convened by the Issuer and shall be convened by the Sukukholders' Agent (subject to it being indemnified and/or secured to its satisfaction) upon the request in writing of Sukukholders holding not less than one-twentieth of the aggregate nominal amount of the Sukuk then outstanding. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing at least one-half of the aggregate nominal amount of such of the Sukuk then outstanding and, at any adjourned meeting, such quorum as is specifically set out in the notice for such meeting. Any Extraordinary Resolution passed at any such meeting shall be binding on all Sukukholders, whether present or not. The Master Declaration of Agency provides that any written resolution signed by or on behalf of the holders of at least 75 per cent. of the aggregate nominal amount of the Sukuk then outstanding shall be as valid and effective as a duly passed Extraordinary Resolution. Notwithstanding the foregoing, the provisions contained in the Master Declaration of Agency described above shall be subject to applicable laws and regulations as in effect in the Kingdom from time to time and shall, in the event of any inconsistency between such provisions and such laws and regulations, be deemed to be amended to the extent necessary at the relevant time in order to comply with such laws and regulations.

15.2 Modification

The Master Declaration of Agency provides that, subject to applicable laws, the Sukukholders' Agent may agree, without the consent of the Sukukholders, to any modification (subject to certain exceptions as provided in the Master Declaration of Agency) of, or to any waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Master Declaration of Agency or any other Transaction Document, or may determine that an Event of Default, shall not be treated as such which in any such case, in the opinion of the Sukukholders' Agent, is not materially prejudicial to the interests of the Sukukholders or to any modification of any of these Conditions or any of the provisions of the Master Declaration of Agency which is (in the opinion of the Sukukholders' Agent) of a formal, minor or technical nature or which is made to correct a manifest error or to comply with mandatory provisions of law. Any such modification, waiver, authorisation or determination shall be binding on the Sukukholders and, unless the Sukukholders' Agent agrees otherwise, any such modification shall be notified to the Sukukholders as soon as practicable thereafter in accordance with Condition 14 (Notices).

In connection with the exercise by it of any of its powers, authorities or discretions (including, but without limitation, any modification, waiver or authorisation), the Sukukholders' Agent shall have regard to the interests of the Sukukholders as a class but shall not have regard to any interests arising from circumstances particular to individual Sukukholders (whatever their number) and, in particular but without limitation, need not have regard to the consequences of such exercise for individual Sukukholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory, and the Sukukholders' Agent shall not be entitled to require, nor shall any Sukukholder be entitled to claim, from the Issuer, the Sukukholders' Agent or any other Person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Sukukholders.

16. FURTHER ISSUES

In respect of any Series, the Issuer shall be at liberty from time to time without the consent of the Sukukholders to create and issue additional Sukuk having the same terms and conditions as the Sukuk of such Series as are outstanding or terms and conditions which are the same in all respects save for the date and amount of the first payment of the Periodic Distribution Amount and the date from which Periodic Distribution Amounts start to accrue and so that the same shall be consolidated and form a single Series with the Sukuk of such Series as are outstanding. Any additional Sukuk which are to form a single Series with the Sukuk as are outstanding previously constituted by the Master Declaration of Agency as supplemented by each relevant Supplemental Declaration of Agency shall be constituted by a declaration supplemental to the Master Declaration of Agency as supplemented by each relevant Supplemental Declaration of Agency. References in these Conditions to the Sukuk include (unless the context requires otherwise) any other Sukuk issued pursuant to this Condition and forming a single Series with the Sukuk.

17. GOVERNING LAW AND JURISDICTION

17.1 Governing Law

The Transaction Documents and the Sukuk are governed by, and are to be construed in accordance with, Saudi Law.

17.2 Jurisdiction

The Committee for the Resolution of Securities Disputes established pursuant to paragraph (a) of article 30 of the Capital Market Law and the Appeal Panel formed pursuant to paragraph (i) of article 30 of the Capital Market Law (the "**Committee**") shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with the Sukuk or the Transaction Documents. No suit, action or proceedings which may arise out of or in connection with the Sukuk or the Transaction Documents may be filed or brought outside the Kingdom and no court or any judicial authority outside the Kingdom shall have jurisdiction to hear any such claim.

17.3 Waiver of Interest

If any suit, action or proceedings are brought by or on behalf of the Sukukholders' Agent or any Sukukholder under these Conditions, the Sukukholders' Agent and each Sukukholder agrees that it will:

(i) not claim any judgment interest under, or in connection with, such suit, action or proceedings; and

(ii) to the fullest extent permitted by law, waive all and any entitlement it may have to judgment interest awarded in its favour by any court or other judicial authority as a result of such suit, action or proceedings.

For the avoidance of doubt, nothing in this Condition 17.3 (Waiver of Interest) shall be construed as a waiver of rights in respect of any Mudaraba Profit, Final Mudaraba Profit, Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit, Periodic Distribution Amounts, Outstanding Payments or profit of any kind howsoever described payable by the Issuer (acting in any capacity) pursuant to the Transaction Documents and/or the Conditions, howsoever such amounts may be described or re-characterised by any court or other judicial authority.

USE OF PROCEEDS

The net proceeds of each Series of Sukuk will be contributed by the Sukukholders' Agent (as Rab-al-Maal) to the Issuer (as Mudareb) as Mudaraba Capital pursuant to the terms of the Master Mudaraba Agreement and will be used by the Issuer to enhance its tier 1 capital as well as for general corporate purposes, all in accordance with the investment plan set out in the Master Mudaraba Agreement.

APPLICABLE FINAL TERMS

Set out below is the form of Applicable Final Terms which will be completed for each Tranche issued under the Programme.

[Date]

Al Rajhi Banking and Investment Corporation

(Incorporated under commercial registration no. 1010000096and converted into a joint stock company pursuant to Royal Decree No. M/59 dated 3/11/1407H (corresponding to 29/06/1987G), with a paid-up capital of SAR 40,000,000,000 and 4,000,000,000 total outstanding shares)

Issue of **[**Title of Sukuk**]**

under the

Additional Tier 1 Capital Sukuk Programme

Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions (the "**Conditions**") set forth in the Base Prospectus dated 20 October 2022 [and the supplement to the Base Prospectus dated 20 October which [together] constitute[s] a Base Prospectus] ([together,]the "**Base Prospectus**"). This document constitutes the Applicable Final Terms of the Sukuk described herein and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Sukuk is only available on the basis of a combination of these Applicable Final Terms and the Base Prospectus. The Base Prospectus is available for viewing during normal business hours at the head office of the Issuer located at 8467 King Fahd Road, Al Muruj District, Riyadh 12263 – 2743, Kingdom of Saudi Arabia and copies may be obtained from this office.

[Include whichever of the following apply or specify as "Not Applicable". Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Applicable Final Terms.]

(1) Issuer	Al Rajhi Banking and Investment Corporation
(2) Sukukholders' Agent	[Al Rajhi Capital Company]
(3) Series Number	[•]
(a) Tranche Number:	[•]
(b) Date on which the Sukuk will be consolidated and from a single Series	[The Sukuk will be consolidated and form a single Series with [identify earlier Tranche(s)] on [insert date/the Issue Date]] [Not applicable]
(4) Specified Currency	Saudi Arabian Riyals ("SAR")
(5) Aggregate Nominal Amount	
(a) Series:	SAR [•]
(b) Tranche:	SAR [•]
(6) Issue Price	[100] per cent. of the Aggregate Nominal Amount [plus SAR [•] in respect of [•] days of accrued Periodic Distribution Amounts from (and including) the issue date of the original Sukuk to (but excluding) the Issue Date]
(7) Calculation Amount	[•]

(8) Issue Date	[•]
(9) Periodic Distribution Amount Basis	[•] per cent. to be reset on [•] and every [•] years thereafter
(10) Offer Period	[•]
(11) Date of Issuer board approval for issuance of Sukuk obtained	[•]

PROVISIONS RELATING TO PERIODIC DISTRIBUTIONS

(12) Initial Periodic Distribution Rate	[•] per cent. per annum payable [annually/semi-annually/quarterly/monthly/[•]] in arrear on each Periodic Distribution Date
(13) Initial Periodic Distribution Amount	[•] per Calculation Amount
(14) Broken Amount(s)	[[•] per Calculation Amount, payable on the Periodic Distribution Date [in/on] [•]]/[Not Applicable]
(15) Margin	[+/-][•] per cent. per annum
(16) Periodic Distribution Date(s)	[•] [and [•]] in each year, subject to Condition 6.2 (Cessation of accrual)
(17) First Periodic Distribution Date	[•]
(18) First Reset Date	[•]
(19) First Reset Periodic Distribution Date	[•] (The first Periodic Distribution Date after the First Reset Date)
(20) Reset Date(s)	First Reset Date and every [•] anniversary thereafter
(21) Mid-Swap Maturity	[•] years
(22) Mid-Swap Pages	[Thomson Reuters Eikon SARAM3L5Y and Bloomberg SRSW5]

PROVISIONS RELATING TO REDEMPTION

(23) Condition 9.1(b) (iii)	[Applicable/Not Applicable] (Only mark as "Not Applicable" if Condition 9.1(b)(iii) is specified as being applicable for the relevant Series of Sukuk)
(a) First Call Date:	[•]
(24) Condition 9.1(b)(iii)	[Applicable/Not Applicable] (Only mark as "Not Applicable" if Condition 9.1(b)(ii) is specified as being applicable for the relevant Series of Sukuk)
(a) First Call Date:	First Reset Date (The First Call Date in respect of a Series of Sukuk where Condition 9.1(b)(iii) is marked as "applicable" can only be the First Reset Date)

PROVISIONS IN RESPECT OF THE SUKUK ASSETS

(25) Mudaraba Capital	[•] per cent. of the Aggregate Nominal Amount
(26) Applicable Rate (in respect of the period from (and including) the Issue Date to (but excluding) the first Mudaraba Profit Rate Reset Date)	Initial Periodic Distribution Rate
(27) Mudaraba Profit Rate Reset Date(s)	First Reset Date and every [•] anniversary thereafter

(28) Details of the Transaction Account	Al Rajhi Banking and Investment Corporation Account No: [•] with [•] for Series No.: [•]

OTHER FINAL TERMS

(29) Listing and admission to trading	[Application has been made to Capital Market Authority of the Kingdom of Saudi Arabia for registration and offer of the Sukuk and to the Saudi Arabian Stock Exchange (Tadawul) («Tadawul») for the Sukuk to be listed on Tadawul.] [Provide details of any other market where the Sukuk are to be listed and traded. If a public or private offer has been or is being made simultaneously on the markets of two or more countries at the same time, and if a tranche has been or is being reserved for certain of these markets, details of any such offer or tranche must be provided here.] The trading of the Sukuk is expected to commence around [•]
(30) Ratings	[The Sukuk have been assigned the following ratings: [[•] by S&P Global Ratings] [[•] by Fitch Ratings] [[•] by Moody›s Investors Service Ratings Ltd]] [The Sukuk have not been rated]
(31) Ratings	[See «Use of Proceeds» in the Base Prospectus/give details]
(32) Estimate of total expenses related to the offer	The offer expenses are estimated at approximately SAR [•], including the fees of the Sole Arranger, Dealers, Receiving Banks, legal advisors, in addition to marketing, arrangement, printing, distribution and other expenses related to the offer. These expenses will be fully borne by the Issuer
(33) Subscription method	Targeted participants wishing to purchase the Sukuk of the relevant Series will be required to submit a duly completed form (an "Investor Application Form") to the relevant Dealer(s), or in the case of individual participants, to the receiving banks ("Receiving Banks"), before the end of the Offer Period (as defined herein) and shall make payment for the Sukuk of such Series as per the instructions contained in the Investor Application Form. Investor Application Forms will be available from the relevant Dealer(s), or from the Receiving Banks, as applicable, in respect of such Series. Applications to purchase Sukuk for less than the Specified Denomination will not be accepted. For further details, please see "*Subscription and Sale*".
(34) Receiving Banks	[insert additional Receiving Banks details]
(35) Allocation method	The allocation method of each Series of Sukuk will be specified in the Investor Application Form for such Series of Sukuk. The acceptance of any application from a prospective investor, and the allocation of any Sukuk, will be at the sole discretion of the Issuer in consultation with the Dealer(s) in respect of the relevant Series of Sukuk.
(36) Other final terms	[Not Applicable/give details] (When adding any other final terms consideration should be given as to whether such terms constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus)

DISTRIBUTION

(37) Dealer[s]/distributor[s]	[•] (Include name and address of Dealer(s)/distributor[s])
(38) Minimum number of Sukuk to be subscribed for	[5 Sak]/[•]
(39) Maximum number of Sukuk to be subscribed for	[10,000,000 Sak]/[•]
(40) Sukukholders' Agent	SAR [5,000]/[•]
(41) Maximum value of Sukuk to be subscribed for:	SAR [10,000,000,000]/[•]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Applicable Final Terms. To the best of the knowledge and belief of the Issuer (having taken reasonable care to ensure that such is the case) the information contained in these Applicable Final Terms is in accordance with the facts and there are no other facts, the omission of which would make any statement herein misleading.

APPOINTMENT OF THE MUDAREB

By executing these Applicable Final Terms, the Issuer (in its capacity as Mudareb) acknowledges and agrees that the Sukukholders› Agent in its capacity as rab-al-maal has contributed the Mudaraba Capital for investment in accordance with the Master Mudaraba Agreement and accordingly a Mudaraba has been constituted in respect of the Sukuk that are the subject of these Applicable Final Terms, in accordance with the terms of the Master Mudaraba Agreement as supplemented by these Applicable Final Terms.

Signed on behalf of Al Rajhi Banking and Investment Corporation

By:

Duly authorised

DESCRIPTION OF THE BANK

OVERVIEW

Al Rajhi Banking and Investment Corporation (the "**Bank**" or the "**Issuer**") is a joint-stock company established under commercial registration No. 1010000096, formed pursuant to Royal Decree No. M/59 dated 3/11/1407H (corresponding to 29/06/1987G) and in accordance with Article 6 of the Council of Ministers' Resolution No. 245, dated 26/10/1407H (corresponding to 23/06/1987). The Company's head office is located at 8467 King Fahd Road, Al Muruj District, Riyadh 12263 – 2743, Kingdom of Saudi Arabia. The Bank's current capital is SAR 40,000.0 million, comprising 4,000 million shares of SAR 10 each. The Bank's main activities involve carrying out banking and investment activities for its own account and on behalf of others inside and outside of the Kingdom through its network of branches and subsidiaries.

The Bank is the world's largest Islamic bank in terms of both assets and market capitalisation as at 8 September 2022G. The Bank only offers Islamic products and services. Based on publicly disclosed information, as at 30 June 2022G, the Bank had the largest customer base among all Saudi banks (at 12.6 million customers, of which 10.6 million were active digital users as at 30 June 2022G) and the largest banking network in the Middle East, with 515 branches, 4,824 automated telling machines ("**ATMs**"), 404,173 point of sale ("**POS**") terminals and 199 remittance centres. As at the same date, the Group also had a wholly-owned banking subsidiary with 16 branches in Malaysia and two wholly-owned foreign branches, one in Jordan (with 10 branches) and one in Kuwait (with two branches).

The Group operates through four business segments:

- retail banking, where, based on publicly disclosed information, it is the leading retail bank in the Middle East in terms of assets and retail customers as at 30 June 2022G;
- corporate banking;
- treasury; and
- investment services and brokerage, which comprises the consolidated securities, brokerage and asset management activities of its wholly-owned subsidiary, Al Rajhi Capital ("**AR Capital**").

The Group's business is diversified across retail and corporate banking, SME banking, treasury operations and international business. It provides clients with innovative products and services that combine Islamic values with modern commercial requirements. The Group also provides micro consumer and SME financing services (through its wholly-owned subsidiary, Emkan Finance Company ("**Emkan**")) and insurance brokerage services (through its 99 per cent. owned subsidiary, Al Rajhi Takaful Agency Company ("**AR Takaful Agency**")), noting that this company is currently under liquidation.

In 2021G, the Bank announced its new Bank of the Future strategy for the 2021G to 2023 period. The four core aims of this strategy are to build on the Bank's core businesses, outperform the market, transform technology and fulfil more customer needs.

As at 30 June 2022G, the Group had total assets of SAR 709,779.0 million, total customer deposits of SAR 552,956.8 million and total shareholders' equity of SAR 81,913.2 million. As at 30 June 2022G, the Group's tier 1 and total capital adequacy ratios, calculated in accordance with Basel III as implemented in Saudi Arabia, were 17.9 per cent. and 19.0 per cent., respectively.

In the six months ended 30 June 2022G, the Group had total operating income of SAR 14,104.4 million and net income for the period of SAR 8,391.9 million. In 2021G, the Group had total operating income of SAR 25,716.4 million and net income for the year of SAR 14,746.2 million.
The Bank's long-term corporate ratings are "BBB+" with a positive outlook from S&P, "A-" with a stable outlook from Fitch, "A1" with a stable outlook from Moody's and "A+" with a stable outlook from Capital Intelligence.

HISTORY

The Bank is a Saudi Joint Stock Company formed pursuant to Royal Decree No. M/59 and Article 6 of the Council of Ministers' Resolution No. 245, both of June 1987G.
The Bank was established as an exchange house in 1957G and converted to a Bank in 1988G under the name Al Rajhi Banking and Investment Corporation. In 2006G, the Bank changed its branding to Al Rajhi Bank.
The Bank's head office and registered office is 8467, King Fahd Road – Al Muruj District, Unit No. 1, Riyadh 12263 – 2743, Saudi Arabia and the switchboard telephone number is +966 9 20003344 (Saudi Arabia) / +966 1 14603333 (International).

COMPETITION AND COMPETITIVE STRENGTHS

Competition

Based on SAMA's website, there are 35 commercial banks operating in Saudi Arabia, of which 11 are local banks incorporated in Saudi Arabia. Of the remaining 24 operating banks, 6 are branches of banks based in countries of the GCC other than Saudi Arabia, 9 are international banks, 6 have been licensed but are yet to commence operations under their licences and 3 have been licensed as digital banks but are yet to commence operations under their licenses. All 11 Saudi banks provide a broad range of retail and wholesale banking products and services. Four banks, including the Bank, provide Shari'a-compliant products and services only. The remaining banks provide a combination of Shari'a-compliant and conventional banking products and services.

All segments of the financial services markets in Saudi Arabia are highly competitive. Both the consumer and corporate banking markets in Saudi Arabia include a range of local and international participant banks. The Bank is a major participant in all segments and competition arises across all products and services. The Bank's primary competitors are Saudi National Bank, Arab National Bank, Banque Saudi Fransi, Riyad Bank and Saudi British Bank.

As at 30 June 2022G and based on publicly available information and non-public SIMAH reports, the Bank:

- had the largest customer base and banking network of all banks operating in Saudi Arabia;
- conducted the most banking transactions in Saudi Arabia, at an average of 599 million per month over the six months ended 30 June 2022G; and
- had leading market positions in personal financing (at 44.6 per cent.), mortgages (at 42.4 per cent.) and auto financing (at 52.6 per cent.).

Competitive strengths

Management believes that the Bank's competitive strengths are:

Intellectual capital

The Bank's management believes that the Bank's intellectual capital is what sets it apart from the competition and impacts its total market value. This capital encompasses intangibles that provide the Bank with a competitive advantage, future readiness, and the ability to meet stakeholder expectations. It comprises the Bank's integrity and business ethics, corporate culture, systems and processes, intellectual property, capacity to innovate, accumulated knowledge and expertise, brands and relationships, none of which are reflected on the Bank's balance sheet.

Strongest domestic retail business with a large, stable retail customer base

The Bank believes that its retail business is the strongest in Saudi Arabia, based on its having the largest banking network, the highest number of banking transactions, the highest retail assets and the most retail customers and its leading market positions in personal financing, mortgages and auto finance, in all cases based on non-public Saudi Credit Bureau ("**SIMAH**") reports.

The Bank has an existing active customer base of approximately 12.6 million customers as at 30 June 2022G, which provides the Bank with access to a large and stable deposit base with a variety of maturity and re-pricing profiles. The Bank's ratio of non-profit bearing deposits to total deposits is one of the highest in Saudi Arabia, giving it access to a significant source of inexpensive funding. The Bank is able to capitalise on this strong customer base to cross-sell products and services across its businesses.

The Group's retail reporting segment contributed 48.6 per cent. of its total operating income and 34.3 per cent. of its income before zakat in the six months ended 30 June 2022G.

Strong brand equity

The Bank's brand power score was 39.2 in 2021G, which is the highest among all the banks operating in Saudi Arabia. The brand power score is based on an ongoing brand health tracker undertaken by an independent market research company on behalf of the Bank.

Based on the BrandZ 2021G report by the Kantar group, the Bank was ranked first in the Saudi Arabian banking industry. The Bank also ranked 81 in the top 500 most valuable brands in Saudi Arabia, the highest among banks in Saudi Arabia according to the February 2021G report by Brand Finance. The Bank also maintained its top spot in the 2020G YouGov NextGen rankings in Saudi Arabia, remaining the most positively talked about brand amongst young adults in the country. The Bank embarked on its digital marketing journey in 2015G and management believes that it has one of the largest groups of social media followers of any Bank within Saudi Arabia.

Largest banking network in Saudi Arabia

The Bank has the largest banking network in Saudi Arabia (with 26.7 per cent. of all bank branches, 29.4 per cent. of all ATMs, 33.7 per cent. of all POS terminals and 30.2 per cent. of all remittance centres based on SAMA monthly statistics) as at 30 June 2022G. It also has strong alternative distribution channels, such as telephone and internet banking, mobile phone systems, smart phone and tablet applications and SMS messaging, which enable it to service its existing customer base and attract new customers.

Strong capitalisation

The Group's tier 1 and total capital adequacy ratios are among the highest in the Middle East, at 17.9 per cent. and 19.0 per cent., respectively, as at 30 June 2022G, which exceeds the Bank's minimum Pillar 1-based capital ratio requirement of 11.0 per cent. as at the same date. The Bank believes that the Group's capital buffers are sufficiently solid to withstand possible credit-related losses, even under an adverse scenario. The Bank conducts regular stress tests in line with its internal policies and in compliance with applicable regulatory requirements. These tests are performed in relation to all quantified risks and are designed to evaluate the Group's ability to withstand the effects of a range of both improbable but plausible scenarios. The Bank believes that the strength of its balance sheet and its robust capital and liquidity position give it operational and financial flexibility and enable it to optimise its return on equity.

Solid funding and liquidity position

The Group has a solid funding and liquidity profile, supported by a well-established local deposit franchise. The Group has consistently maintained low financing to deposit ratios (in the range of 78.8 per cent. to 85.5 per cent. in the last five years). The proportion of its profit-free customers' deposits to its total customers' deposits was 70.3 per cent. as at 30 June 2022G. The Group benefits from the fact that its customers' deposits are a stable source of funding which are sourced from mass retail and private customers, SMEs, public institutions and large corporates. These strengths are, however, moderated by relatively high deposit concentrations, a feature common to all Saudi banks. The bulk of such concentrations relate to Government and quasi-Government institutions, which have also historically been stable. See "Risk factors—Risks relating to the Bank and its ability to fulfil its obligations under the Sukuk—The Group's financing, net, investment securities portfolio and customers' deposits are concentrated in Saudi Arabia" and *"Risk factors—Risks relating to the Bank and its ability to fulfil its obligations under the Sukuk—The Group has significant customer and sector concentrations*". The Group also has limited reliance on market funding.

The Bank believes that the Group's robust liquidity profile positions it to withstand short-term deposit volatility. The Group's financing to customers' deposits ratio was 83.8 per cent. as at 30 June 2022G, which provides it with scope to further expand its financing before it reaches the regulatory maximum loans to deposits ratio of 90.0 per cent.

Product innovation

The Bank has designed a number of innovative Shari'a-compliant products for its retail and corporate customers, including real estate financing products, personal financing products and auto-lease products. All consumer financing products at the Bank approved by the Bank's Shari'a Committee prior to their launch. These products reflect significant collaborative work between the Bank's Shari'a and business groups.

In addition, the Bank believes that its ability to respond rapidly to changing customer needs with innovative solutions and best in class digital offering (for example, the Bank's mobile application has one of the highest user ratings when compared to other mobile applications in Saudi Arabia), provide it with a strong competitive advantage.

Experienced Saudi management team

The Bank has a strong and experienced 16-member executive management team which has extensive knowledge of the banking sector in Saudi Arabia and the wider MENA region and significant experience in leading international financial institutions. Its 11-member Board also has significant experience, with the Chairman being a former Chief Executive Officer ("**CEO**") of the Bank and the Vice Chairman having been a Deputy CEO at the Authority.

VALUE CREATION MODEL AND STRATEGY

Value creation model

The Bank's management believes that its value is driven by its vision and mission, engagement with stakeholders and integrated thinking and strategy.

The Bank's future earnings are driven by value derived from and delivered to stakeholders. The Bank creates value in this manner sustainably over time as it continues to build and strengthen relationships with its key stakeholder groups. The Bank considers these stakeholder groups to be forms of capital.

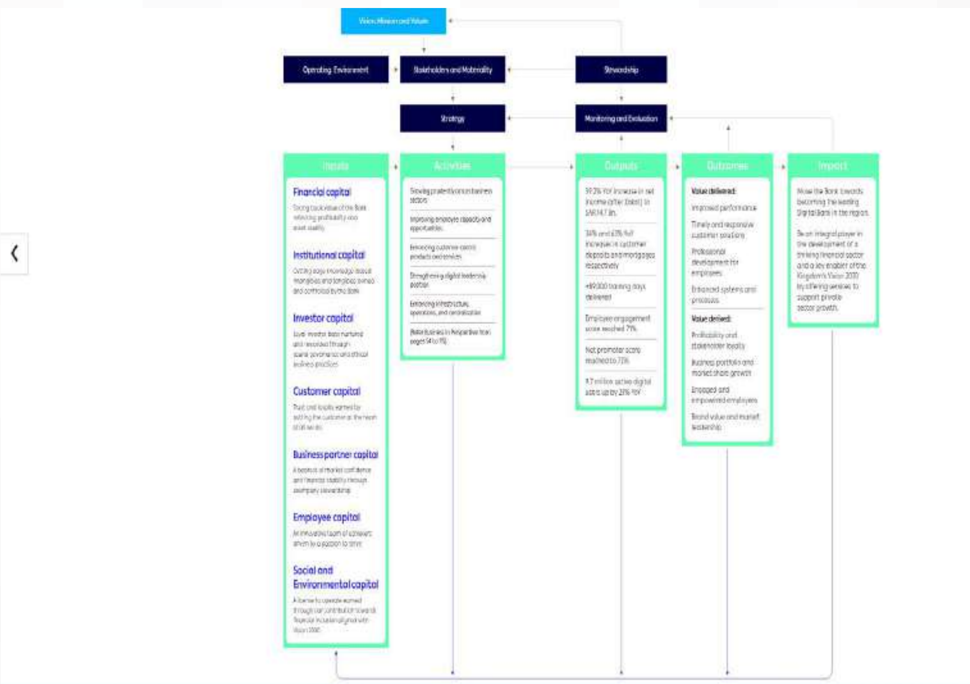
In addition to financial capital and institutional capital, other capitals include investor capital, customer capital, business partner capital, employee capital, Government and regulator capital and social and environmental capital. Together these capitals provide the inputs for the Bank's activities enabling delivery of value to and the derivation of value from stakeholders over time.

The Bank's system for transform

ing input capitals through business activities into outputs, outcomes and impact is illustrated in the Value Creation Model below. Each segment that follows inputs is part of a results chain that represents value creation in the current-, short-, medium- and long-term respectively.

The business drivers and the results chain described above are complemented by events and trends in the internal and external operating environment, good governance and risk management practices, and the ongoing monitoring and evaluation of the Bank's performance in the current-, short-, medium- and long-term. Despite the nature of the value creation process – where the capitals are constantly rising, falling or being preserved – the Bank remains focused on increasing the overall stock of capital.

The diagram below illustrates the Bank's value creation model.



The Bank is committed to fulfilling its vision to be a trusted leader delivering innovative financial solutions to enhance the quality of life of people everywhere. Its mission is to be the most successful bank admired for its innovative service, people, technology, and Shari'a-compliant products, both locally and internationally.

Strategy

The Bank's strong result in 2020G is the outcome of a solid foundation built upon the Bank's ABCDE – Back to Basics strategy, which was launched in 2016G and covered the 2016G to 2020G period. The strategy was designed to enhance regulator confidence, improve controls, engender prudent growth, establish a strong stake in digital banking and create better value for its stakeholders. The Bank posted robust growth in its core retail banking franchise with a doubling of its share price over the five-year strategic period and a market leading financial performance in Saudi Arabia. At the end of the period, its balance sheet was well provisioned and the brand remained powerful; backed by a broad distribution network and improved digital sales and service capabilities.

The Bank's management believes that the government's Vision 2030 is providing significant growth opportunities across Saudi Arabia as the move from public to private sector gathers pace, bringing with it significant opportunities for growth in financial services. The Government has indicated that the Public Investment Fund (the "**PIF**") will increase capital investment in the Saudi economy through mega-projects, the issuance of sukuk and by accelerating the privatisation of Government entities. The Government's Financial Sector Development Programme (the "**FSDP**"), which contributes towards Vision 2030, is designed to allow financial institutions to support private sector growth without compromising stability. Business groups across the Bank are looking to make the most of this increased focus on the private sector by expanding their range of solutions beyond traditional transactional banking services. The increasing penetration of banks, greater demand for housing and better credit reporting within Saudi Arabia allow for strong credit growth potential for both the retail and SME customer segments. Meanwhile, Government investments are opening up opportunities for the corporate banking sector and the growing sukuk market is providing greater opportunities for treasury services.

Reflecting these developments, the Bank's new strategy for the three-year 2021G to 2023 period is designed to help the Bank become "The Bank of the Future" ("**BOTF**"). By successfully executing its BOTF strategy, the Bank sees strong prospects for continued profitable growth through two key areas:

- protecting the Bank's core retail franchise – where it will focus on transitioning from public to private sector while continuing to build on market leading digital capabilities as it continues to pivot from physical to digital delivery; and

- participating in new growth opportunities through expanding in sectors where the Bank has some existing but under developed capabilities and currently has smaller market shares. These opportunities include private banking, bancassurance, corporate banking and SME banking. These sectors are growing significantly, and the Bank is already making good progress in building new capabilities to profitably grow its share (for example it established Emkan in mid-2020G to provide micro financing to consumers and the SME sector).

The Bank's management believes that the basic elements to achieve its new strategy are in place and that the Bank is well positioned to take advantage of the new opportunities given its existing strengths in terms of liquidity, distribution, and talent.

The four key elements of the BOTF strategy are:

- Build on the core;
- Outperform the market;
- Transform technology; and
- Fulfil more customer needs.

Build on the core

The Bank intends to build on the core by building on its existing capabilities in retail, corporate and SME business banking and treasury products to protect its core franchise. In retail banking, the Bank currently has leading market shares in personal finance, auto finance and mortgage financing. It also has the leading market share in consumer mobile banking capabilities (measured by active digital customers and based on publicly available information as at 30 June 2022G. The Bank continues to invest in these capabilities and build on its already strong brand and customer engagement.

In corporate banking, where the Bank is currently ranked fifth in the market in terms of corporate financing provided based on published financial information by banks as of June 2022G, the Bank intends to focus on deepening selected customer relationships in target industries with specific names. While Saudi Arabia's corporate banking market is sizeable, the Bank has maintained healthy profitability levels thanks to low cost funds, low cost of risk and low operating expenses. The Bank also intends to build on its treasury investment book to improve its yield and maturity profile.

SMEs have traditionally found it difficult to secure bank financing in Saudi Arabia. The Bank is looking to capitalise on its distribution strength and create the leading offer for this segment by providing more convenient and efficient banking services through automation to speed up decision and delivery timelines.

To expand its customer mix, the Bank is also increasing its focus on private sector employees and mortgages, by working to increase its share in non-Real Estate Development Fund lending. Additionally, the Bank intends to work to meet more of its affluent customer's bancassurance needs as the Saudi market matures. The Bank's digital capabilities continue to expand in both sales and service, with the online migration of current account opening and the full range of its personal lending products and mortgage applications.

Outperform the market

The Bank aims to lead the market in customer experience, employee engagement and regulatory conduct. Creating value for all stakeholders including its regulators, shareholders, employees, customers and business partners, will continue to be a priority.

Each business line is tasked with leading the market in its area, with a strategy to do so clearly laid out for all employees with individual key performance indicators aligned with department goals.

Employee recruitment, training and development, engagement and retention continue to be a priority to ensure that the Bank's people continue to be ready to meet the challenges of the changing operating environment. To execute this strategy, the Bank continues to invest in its people with a focus on building the right capabilities while enhancing and modernising its IT infrastructure and streamlining processes.

The Bank intends to continue to diligently ensure that its people receive the awareness and training required to be compliant with both the letter and the spirit of all regulatory requirements.

Transform technology

The Bank intends to build resilience and a platform for innovation through a continued focus on modernising technology, leadership in data driven insights and agile working. The Bank will also look to support the growth of its digital banking offering by continuing to upgrade and modernise its critical infrastructure. Customers are increasingly turning to digital options in all areas of their day-to-day lives, from shopping to working and staying in touch with family and friends. Management believes that they will expect the same level of ease and convenience from the bank of their choice and the Bank must be ready to deliver.

The Bank's strategy focuses on delivering the best digital bank value proposition in the market, leveraging its digital banking capabilities across a wide range of customer groups, providing the best customer experience and having a differentiated and focused digital marketing approach across all segments served. This will be supported by digital-ready platforms that are responsive and scalable, aligned with business strategy and the demands and trends of the market.

In January 2022G, the Bank acquired Ejada Systems Company after obtaining the required approvals from relevant regulatory authorities. This acquisition will assist the Bank in developing its technological capabilities with the latest technologies that will contribute to its digital transformation in order to provide the best financial solutions and meet customers' expectations through innovative products that keep pace with their changing needs.

Fulfil more customer needs

The Bank intends to expand into key growth areas such as finance, wealth management and payments in order to serve more customers and deepen existing relationships. Building on the Bank's current private banking business, the emphasis will be on transforming from a transactional bank for this segment to one that offers broader wealth management services to meet more needs from existing customers as well as attracting new business. The provision of wealth management solutions will leverage the Bank's treasury services and subsidiaries, such as AR Capital, and its associate, Al Rajhi Company for Cooperative Insurance ("**AR CCI**").

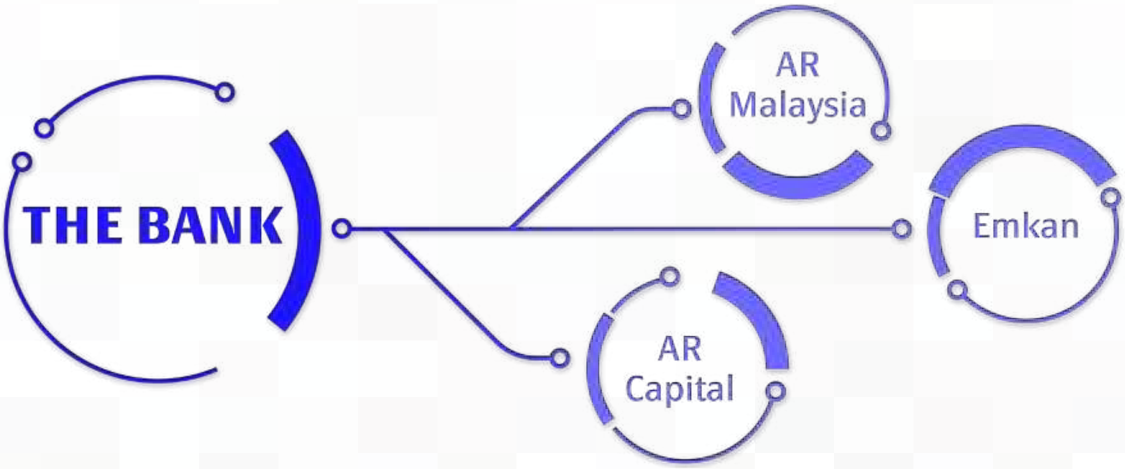
To meet the changing needs of the consumer finance market and the transition to a larger private sector in Saudi Arabia, the Bank has launched a new finance company, Emkan, which targets micro consumer financing, finance leasing and SME financing, and offers further growth potential.

The payments market is undergoing rapid change with financial technology companies and new entrants providing a threat to established players. As a leading payments solution provider, the Bank is focussed on adapting to these changes through the creation of end-to-end digital payments solutions for its customers. Through innovative services, product offerings and advanced capabilities, the Bank expects to deepen its relationship with customers, placing them at the heart of everything it does. In October 2021G, the Bank launched neoleap, a fintech company licensed by SAMA with a focus on payments.

Through the improvement of customer-related systems and processes, digitisation will also play a major role in improving employees' capacity to serve customers and exceed expectations. The Bank is also focused on encouraging cross-selling across all products by capitalising on the Bank's reputation and large customer base as a means of driving revenue growth and increased profitability. In 2021G, the Bank made significant progress in engaging its most valued customers through the Mokafaa loyalty programme. The aim of the programme is to provide a rewarding loyalty experience for customers across Saudi Arabia, with members able to earn Mokafaa points across a range of the Bank's products and services which can then be redeemed or shared with friends and family. The total number of Mokafaa members now stands at over 5.0 million, with over one million members having joined the programme as at 30 June 2022G. The Mokafaa programme has helped the Bank to boost customer engagement rates, with members now able to redeem their Mokafaa points in-store with 102 major merchants in Saudi Arabia.

GROUP STRUCTURE

The chart below sets out details of the Bank and certain of its subsidiaries described elsewhere in this document as at the date of this Base Prospectus. All of the subsidiaries are wholly-owned, except where indicated otherwise by a percentage figure.



In addition, the Bank has a 35 per cent. shareholding in AR CCI. The Bank has no representative offices.

SHAREHOLDERS

There are no major shareholders which owned more than 5.0 per cent. of the Bank's share capital as at 30 June 2022G.

Neither the Bank nor any of its subsidiaries has any capital which is under option.

BUSINESS

Overview

The Group has four principal reporting segments which correspond to its core businesses. These are:

- Retail: The retail business provides banking services, principally lending and deposit taking to individuals and affluent customers in Saudi Arabia. The retail business also provides business banking services to micro- and small-businesses ("**MSBs**").

- Corporate: The corporate business provides banking services, including credit-related and financing products and deposit taking, to corporate clients in Saudi Arabia, including SMEs;

- Treasury: The treasury business provides treasury services, including various Islamic rate hedging and derivative products, Islamic foreign exchange hedging and derivative products as well as structured investment solutions, and includes the international mutajara portfolio originated by the Group's overseas banking subsidiaries and branches and the Group's remittance business; and

- Investment services and brokerage: The investment service and brokerage business provides wealth management, asset management and shares brokerage services (local, regional and international), principally through AR Capital.

The table below shows certain income statement and statement of financial position financial data for each of the Group's reporting segments as at, and for the six months ended 30 June 2022G.

	Retail	Corporate	Treasury	Investment services and brokerage	Total
			(SAR millions)		
six months ended 30 June 2022G					
Total operating income	6,861.4	1,871.9	4,817.0	554.1	14,104.4
Income before zakat	3,213.0	1,042.0	4,697.7	403.9	9,356.6
As at 30 June 2022G					
Total assets	434,953.7	109,457.9	158,024.0	7,343.4	709,779.0
Total liabilities	317,418.6	253,583.5	56,283.5	580,2	627,865.9

RETAIL

Overview

The Bank's retail banking business focuses on the provision of private, affluent banking and mass consumer banking services, including savings and protection products provided through AR CCI.

The Bank's retail banking business, which accounted for 48.6 per cent. of the Group's total operating income and 34.3 per cent. of its income before zakat in the six months ended 30 June 2022G, comprises:

- consumer banking, which delivers sales and service through the branch network and alternative channels, manages the complete product suite of liabilities, residential finance, personal finance, cards and auto lease, and delivers banking services to MSB customers;

- private banking, which provides wealth management services and financing to meet the Bank's private banking base's expectations; and

- affluent banking, which delivers sales, service and advice to affluent banking customers.

These operational businesses are supported by a retail operations unit that manages the delivery of product fulfilment, customer care, collections and operational administration and a retail strategy and analytics unit that enables all retail businesses with strategy development, marketing services, sales analytics and customer analytics.

Personal banking is highly competitive in Saudi Arabia, with the Bank's main competitors being Saudi National Bank, Bank Albilad, Saudi British Bank and Riyad Bank. The Bank distinguishes itself from its competitors through its reach, product development expertise, solid balance sheet, brand value, customer loyalty, a strong digital offering, network reach, customer experience, agile delivery and holistic approach to providing banking services across all client segments and businesses. As at 30 June 2022G, the Bank was the largest local bank in Saudi Arabia in terms of consumer financing and had a 44.6 per cent. market share of total performing consumer financing among local banks in Saudi Arabia (source: SIMAH).

Consumer banking

The Bank's consumer banking customers are served through its branch network and alternative channels. As at 30 June 2022G, the Bank had the largest banking branch network in Saudi Arabia at 515 branches.

In the six months to 30 June 2022G, the Bank conducted approximately 37 per cent. of its financial transactions with its retail customers through the following alternative distribution channels: telephone and digital banking, smartphone and tablet applications. These channels enable the Bank to deliver many of its products in a more secure, cost-effective and user-friendly manner, often using the customer's own hardware.

The Bank offers a broad suite of consumer banking products to customers. The key products offered are:

- personal finance, which is offered primarily on the basis of an assignment of the customer's salary, although the Bank also offers personal finance without a salary assignment (through refinancing, top up and payment holiday products) and, in line with the digitisation objectives of the Bank, personal finance is available through the alternative distribution channels, thereby facilitating end-to-end financing digitally;

- deposit solutions, including savings accounts, time deposits and structured deposits;

- a full range of card products, including debit, credit and pre-paid cards, with loyalty features to attract and retain customers, as well as categories catering to all customer segments served by the Bank. Card products are designed to meet customer needs and include Al Rajhi credit cards that benefit from a Mokafaa Loyalty programme, a Travel Plus credit card, which is the only multicurrency card available in the Saudi market and which offers customers competitive foreign exchange rates as well as travel and lifestyle benefits to assist overseas travel. The Digital cash back card offers customers cash back of up to 1 per cent. on all transactions made using the card – it allows customers to access the card immediately through the Bank's mobile application and can be downloaded onto Apple Pay;
- residential finance, which is offered through mortgage specialists at the Bank's branches and alternative channels. A full range of product solutions is offered, which includes financing, equity release, multi-family dwelling, near-completion projects, construction finance, off-plan finance, "land loan" finance and topup finance (refinancing). The Bank is also cooperating with the Kingdom's Real Estate Development Fund and Ministry of Housing as part of the Kingdom's Housing Program. The Bank aims to grow its market share in real estate financing through an emphasis on customer-focused mortgage planning (which involves guiding customers through the mortgage and lending process) and partnerships with property brokers and developers; and

- auto finance to individuals buying passenger vehicles. This involves the Bank, at the request of the customer, acquiring a car of the customer's choice and leasing it to the customer for a maximum period of five years. The Bank has representatives in the showrooms of all leading automobile dealers in Saudi Arabia, and works collaboratively with automobile dealers on joint marketing initiatives.

The Bank offers business banking services to MSBs (being businesses with turnover up to SAR 100 million per year). These clients are served by different sales channels providing a full suite of products, including current accounts, digital banking and financing options through POS, buy-to-let mortgage, e-commerce, fleet and cards products (including debit, credit and charge cards).

Affluent and private banking

The Bank's affluent customers comprise customers with an average balance with the Bank of at least SAR 100,000 or with a salary of SAR 20,000 or more per month.

The Bank's affluent customers are entitled to a range of benefits which depend on their status within the affluent programme. At the basic level, these include priority services in its more than 300 Affluent Centres across the Bank's branch network. Other benefits include exemptions or discounts from banking fees, credit card benefits, access to VIP lounges at airports and exclusive offers and discounts and increased daily cash transfer and withdrawal limits. At the higher diamond level, affluent customers also benefit from dedicated relationship managers, access to concierge and emergency assistance services worldwide and higher daily cash transfer limits.

In addition to the benefits offered to the Bank's diamond affluent customers, the Bank's private customers also benefit from committed private banking centres, free credit cards for themselves and their family, the highest daily transfer limits as well as a variety of other tailor-made products and services.

Products targeted to affluent and private banking customers include credit cards, takaful insurance, mutual funds, residential mortgage financing, auto leasing and state investment opportunities. Private banking customers also benefit from wealth management products and services. In the case of diamond affluent and private banking customers, products and services are provided by a dedicated relationship manager, who caters to the customer's overall personal banking and investment needs.

The Bank also utilises its strong relationships with private banking customers to cross-sell other Group products, in particular treasury and AR Capital products. Through AR Capital, wealth managers provide clients with a range of services such as financial planning, investment advice, asset allocation, comprehensive portfolio management and retirement planning.

Savings and protection

The retail business offers four savings and protection packages through AR CCI, a listed insurance provider in which the Bank has a 35 per cent. shareholding. The plans provide a way to invest regular contributions in a simple and cost effective manner in amounts ranging from SAR 300 per month to SAR 3,000 per month, with protected amounts ranging from SAR 50,000 to SAR 400,000. The funds invested are managed by professional fund managers and, in the event of death or disability, the customer receives the current plan value or the protected amount, whichever is higher.

CORPORATE

Overview

The Bank's corporate banking business focuses on the provision of a wide range of corporate banking solutions covering account services, financing, cash management, trade finance, digital payment solutions and treasury services to companies with a turnover in excess of SAR 40 million. It services more than 507,000 customers and had the fifth largest portfolio of corporate financing in Saudi Arabia as at 30 June 2022G, with a market share of 10.3 per cent. based on the published financial statements of Saudi Arabian banks.

The Bank's corporate business accounted for 13.3 per cent. of the Group's total operating income and 11.1 per cent. of its income before zakat in the six months ended 30 June 2022G. The Bank's corporate business includes the following client segments: large corporates, mid corporates, SMEs, enterprise banking and government supported by three product units: (i) global transaction banking unit covering (a) cash management (b) digital payments and (c) corporate cards, (ii) trade finance and (iii) structured finance providing advisory, syndication with other banks and transaction support. These client segments and product areas are supported by a coverage and strategy unit that is responsible for strategy development, strategy execution, project management, middle office and analytics functions and also assists with portfolio attribution and performance management. The corporate business is also supported by the operations unit under the shared services function, that encompasses all operational functions across the Bank providing customer service and support to all areas within the corporate business.

The corporate business services more than 507,000 customers across various sectors and has three dedicated business solution centres in Riyadh, Jeddah and Dammam, which act as universal centres serving corporate clients' needs across products and services. In addition, 86 corporate desks have been set up in identified retail branches to expand corporate coverage and distribution. The plan is to expand this to more than 100 locations to serve corporate clients across Saudi Arabia. Given the corporate business' relative market position and the current market landscape supported by various Government initiatives, the Bank believes that it has significant scope to expand its corporate business.

The Bank's corporate business aims to be the "Best Corporate Bank" in Saudi Arabia. To drive this aspiration, the corporate business intends to grow its asset market share with a focus on expanding its customer base. In addition, the corporate business aims to grow its liabilities, fee income and cross selling whilst maintaining a below market average cost of risk. The corporate business intends to expand its client base by leveraging the Bank's strength in retail, Emkan, neoleap, customer loyalty and its balance sheet size to diversify its client base and minimise its cost of risk. The corporate business will continue to focus on building a balanced portfolio across customer segments and improving yields by focusing on structured products, enhancing global transaction banking solutions, repositioning trade finance and building on its coverage model both from a relationship and product perspective.

Large corporates and structured finance

The large corporates coverage business services clients that generate sales turnover of SAR 500 million and above. The Bank serves these large corporate clients through dedicated relationship managers with a "One Client One Bank" approach. The business offers a wide range of Shari'a-compliant solutions, tailor made to suit client needs and requirements.

The large corporates team is supported by the Structured finance unit which offers specialised financing transaction structures tailored to clients' needs. The structured finance unit offers advisory, arranging and underwriting business by leveraging strong client relationships and working closely with AR Capital. The structured finance unit is active in domestic project finance, participating in Government-sponsored projects in the oil, petrochemical, power, mining and water sectors. It also undertakes commercial real estate and acquisition financing and actively leads and arranges financing transactions in Saudi Arabia with other banks.

Mid corporates and SMEs

The mid corporates coverage business services clients that generate sales turnover between SAR 200 million and SAR 500 million. The business offers a comprehensive product suite covering financing, cash management, trade finance, payment solutions and treasury services. In addition, the business offers structured products POS and fleet financing to serve clients' specialised needs. The business serves its clients through dedicated relationship managers that act as a single point of contact for all products and services across the Bank.

The SME coverage business covers business clients that generate sales turnover between SAR 40 million and SAR 200 million. The business offers a wide range of plain vanilla products tailored to SME clients. It serves the clients through dedicated relationship managers offering a mix of judgemental and programme-based lending focusing on structured products covering POS, fleet financing and real estate programmes (EIRAD). The SME business works with the General Authority for Small and Medium Business (Monshaat) and participates in various Government programmes supported by SAMA including the Saudi Industrial Development Fund's Kafalah programme focusing on creating opportunities and developing the SME segment in Saudi Arabia.

The Banks's aspiration is to be a bank of choice for SMEs in Saudi Arabia and it continues to build and implement strategic initiatives to realise this ambition.

Enterprise banking and government (vision 2030 realisation programmes)

The enterprise banking business cover clients with non-borrowing needs and provides basic account services and transaction banking services focusing on non-credit-driven cash and trade finance requirements. It currently serves over 502,000 clients across Saudi Arabia. The business primarily focuses on attracting deposits from these clients to fund the growth aspiration of the corporate business.

The government business serves the Government and semi-Government entities in addition to having a dedicated team working with various ministries to support the Vision 2030 plans by forging partnerships with various Government funds and programmes to contribute to the realisation of Vision 2030. The business has a partnership with the PIF to provide banking and payment solutions for the PIF, its various subsidiaries and its newly established companies. The business also works closely with Government ministries and other Government-established funds such as the Saudi Industrial Development Fund, the Real Estate Development Fund, the Tourism Development Fund and the Agricultural Development Fund.

Global transaction banking and trade finance

The global transaction banking business provides product and solution support to clients through its cash management, digital payments and corporate cards units. The business provides tailored products and services covering payments, collections and connect solutions to serve the holistic business needs and requirements across client segments. The Bank is a leader in the payroll and payroll card product market serving over 4.5 million employees in processing their payroll. The global transaction business is working on further strengthening the proposition on business-to-business, virtual and escrow accounts and corporate liquidity management to serve the emerging needs of its clients.

The Bank has the leading market share in POS terminals in Saudi Arabia with 404,173 terminals and a market share of 33.7 per cent. according to SAMA monthly statistics (source: SAMA Monthly Statistical Bulletin – June 2022). The Bank processed over 64 million e-commerce transactions and is focusing on expanding the market share of e-commerce transactions from its current level of 26 per cent. according to SAMA monthly statistics. The global transaction business is working on launching a corporate card solution, to cater to the payments needs of its corporate and SME clients. Multiple card variants will be offered covering business and travel spend, to facilitate online booking, to manage supplier payments efficiently and to support clients with enhanced data to help them better manage their businesses.

The trade finance business serves the plain vanilla and structured trade requirements of the Bank's corporate and SME clients. The business covers trade sales, product development and trade services. The Bank is aiming to reposition as a "**trade bank of choice**" and a leading trade solutions and advisory provider by strengthening its capabilities and enhancing its digital penetration, improving turn-around time by revamping processes. The trade finance business is working on enhancing its product and services offerings to focus on structured trade including importers and exporters and to serve client needs across a rapidly-evolving corporate landscape.

TREASURY

Overview

The Bank's treasury business focuses on:

- managing the Bank's liquidity and ensuring that the Bank is able to meet its financial obligations at all times. This includes overseeing all short-term funding sources, pricing and managing all short-term and long-term financing provided by the Bank, monitoring the liquidity of the Group and ensuring its compliance with regulatory ratios; and
- managing the Bank's investments portfolio. In so doing, it provides superior asset allocation, balance sheet optimisation and direct investment management expertise and seeks to protect the Bank's balance sheet from abnormal profit rate movements, enhance yields/income and contribute to the maintenance of adequate liquidity coverage within defined risk limits.

The Bank's treasury business also manages the mutajara portfolio originated by its overseas subsidiaries and branches and its "Tahweel Al Rajhi" remittance business that caters to the needs of Saudi Arabia's large expatriate labour market.
The Bank's treasury business accounted for 34.2 per cent. of the Group's total operating income and 50.2 per cent. of its income before zakat in the six months ended 30 June 2022G.

Treasury manages the Bank's liquidity and funding operations in accordance with pre-determined limits set by the asset and liability committee (the "**ALCO**") in relation to net outflows, stress scenarios, projected cash flows, and regulatory liquidity ratios.
The stability and behaviour of the Bank's deposit base is analysed using historical and simulated data and statistical interval analysis. The results of such analyses, the Bank's funding limits, potential funding issues and pricing history and mechanics are discussed by the ALCO. Any changes to pricing strategy and environment are communicated to the ALCO.

The Bank's excess liquidity is deployed in investment portfolios primarily in high quality liquid assets and in other asset classes in line with the overall risk appetite with an objective to achieve the targeted risk-adjusted return while complying with risk management requirements approved by the board of directors of the Bank (the "**Board**"). The Bank closely monitors the investment portfolios to ensure they remain well within the risk limits. For a breakdown of the Bank's funding, see "*Financial review—Liquidity and funding—Funding*".

Treasury has an established limit structure, which includes sophisticated risk management and measurement tools such as Murex and Moody's systems, which consolidate credit, price and liquidity risk limit information and manage the data in real-time across all instrument types, thereby enabling treasury risk managers to exercise real-time oversight and control of credit and market risk exposures.

At the request of clients, the treasury sales and trading team analyses their commission rate exposure and provides solutions, pricing and execution of commission rate derivative products. The team also provides clients with solutions, pricing and execution of vanilla products, including spot, swap and forward transactions, and manages all market risk associated with the transactions.

Treasury also offers Shari'a-compliant structured products to the Bank's client base. Any risks to which the Bank may be exposed in connection with offering these products are hedged through interbank counterparties.

Treasury also aims to execute its foreign exchange business in a profitable and efficient manner accompanied by strict controls. It manages the Bank's foreign exchange exposures by ensuring that sufficient bank notes are available to meet client demands. It also offers physical and paper gold to its client base.

Banking subsidiary in Malaysia and branches in Jordan and Kuwait

Treasury is responsible for the Bank's wholly-owned banking subsidiary in Malaysia and its branches in Jordan and Kuwait. Al Rajhi Corporation Limited – Malaysia ("**AR Malaysia**") is briefly described below under "—*Principal subsidiaries and associate*".

Tahweel Al Rajhi

Tahweel Al Rajhi serves the remittance needs of Saudi Arabia's large expatriate labour market. As at 30 June 2022G, the Bank had 199 Tahweel Al Rajhi remittance centres, which, according to SAMA monthly statistics, represented a market share of 30.2 per cent. of the remittance centres in Saudi Arabia. These remittance centres are a vital channel for the Bank through which customers, particularly expatriate workers, can remit funds to more than 200 countries, thereby providing financial services to a previously under-served segment.

Investment services and brokerage

The Bank's investment services and brokerage business comprises the activities of AR Capital and accounted for 3.9 per cent. of the Group's total operating income and 4.3 per cent. of its income before zakat in the six months ended 30 June 2022G.

Founded in 2008G, AR Capital is a financial services company that provides a wide range of financial products and services across brokerage, asset and wealth management and investment banking. AR Capital is licensed by the Authority to carry out dealing, as principal and agent, as well as underwriting, managing, arranging, advising and custody services, with respect to securities.

Brokerage

AR Capital is the largest broker in Saudi Arabia, serving institutional, corporate, retail, high-net-worth individual, and professional investors. Based on Tadawul trading activity reports, as of 31 December 2021G, its broking market shares on Tadawul and the Nomu-Parallel Market were 19.4 per cent. and 22.3 per cent., respectively, with its nearest competitors having market shares of 15.2 per cent. and 19.4 per cent., respectively.

Asset and wealth management

AR Capital offers a range of investment solutions across all major asset classes including equities, real estate, money market, fixed income and multi-asset. AR Capital was named 'Top Equities Manager of the Year in MENA' by the Global Investor Awards MENA 2020G. In addition, the Al Rajhi Multi-Asset Conservative Fund was recognised as the 'Best Fund over 5 Years' in the Mixed Asset Other Conservative category, by the Saudi Arabia Refinitiv Lipper Fund Awards 2020G. As at 30 June 2022G, AR Capital's client assets under management stood at SAR 55.0 billion of assets, positioning AR Capital as Saudi Arabia's fourth largest asset manager based on publicly available information.

In real estate, AR Capital is one of the largest real estate asset managers in Saudi Arabia, with total assets of over SAR 2.2 billion (including the assets of the Alrajhi REIT Fund and the special assets).

Investment banking

AR Capital's investment banking business offers the Bank's customers a comprehensive range of investment banking solutions and services, including: equity capital markets (such as IPOs, rights issues and private placements), debt capital markets, mergers and acquisitions and debt advisory services.

PRINCIPAL SUBSIDIARIES

In addition to AR Capital, the Bank has a number of other subsidiaries, including:

AR Malaysia

AR Malaysia is a wholly-owned subsidiary of the Bank. It is a licensed Islamic bank under the Malaysian Islamic Financial Services Act 2013 and is incorporated and domiciled in Malaysia. AR Malaysia has been operating for 14 years and has 16 branches across Malaysia.

AR Malaysia's strategy is to focus on five key pillars: (i) increasing assets and financing growth, (ii) increasing non-yield income growth, (iii) increasing operational efficiency in a cost-effective manner, (iv) growing its current and savings accounts and (v) improving its cost to income ratio. In line with the Bank's new BOTF strategy, AR Malaysia is also seeking to expand its digital capabilities in both sales and service.

Emkan

Emkan is a wholly-owned subsidiary of the Bank and was established in mid-2020G in Saudi Arabia. Emkan provides micro consumer financing, finance leasing and small and medium business financing services.

AR CCI

AR CCI is a 35 per cent. owned subsidiary of the Bank. and it is a provider of a range of co-operative insurance services, including vehicle, property, health, personal accident, professional liability and travel insurance.

INTERNAL CONTROL

The Bank's executive management is responsible for designing an appropriate internal control system under the Board's direct supervision. The system, which is aligned with SAMA's regulatory requirements, has been designed to directly mitigate risks that could impair the realisation of the Bank's strategic and operational objectives.

Set out below are the key components of the Bank's internal control system:

- continuous development of the governance framework through which appropriate control tools are prepared and updated at the Bank level and the roles and responsibilities of various components are clarified, including the Board, Board committees and other administrative committees;
- policies and procedures that govern the Bank's business activities which are subject to periodic review to ensure that the Bank's business is running properly in order to protect the quality of the Bank's assets;

- regular reviews on the efficiency and adequacy of the internal control system are carried out by Internal Audit based on an annual plan approved by the Audit and Compliance Committee, in addition to reviews of the effectiveness of internal control by the external auditors and supervisory reviews conducted by SAMA;
- an internal committee specialised in internal control work was formed in the Bank in 2020G for the purpose of following up on the observations and operations of control departments such as the internal audit, compliance, fraud control and various risk departments;
- most of the Bank's operations are executed through automated systems, which help in reducing manual errors and reducing the chances of fraud;
- the Board's Audit and Compliance Committee (the "**BACC**") supervises the activities of the internal and external auditors in order to support and promote their independence. This committee receives regular and periodic reports on audits carried out on different functions within the Bank; and
- the comments and reports of the Shari'a group are conveyed to the BACC to enhance compliance.

INTERNAL AUDIT

The Bank's internal audit group ("**IAG**") provides independent, objective assurance and advisory services to assist in maintaining an effective and efficient system of internal control across the Bank, its subsidiaries and branches and supporting the Board and the BACC in their oversight of the governance, risk and control framework. The Group Chief Internal Auditor reports functionally to the BACC and administratively to the CEO.

The IAG helps the Bank to accomplish its strategic objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The nature of the internal audit work encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the Bank's corporate governance framework, risk management and system of internal controls as well as the quality of management actions and performance in carrying out their assigned responsibilities to achieve the Bank's stated goals and objectives. The IAG also assesses and makes appropriate recommendations for improving the governance process.

The IAG follows a risk-based approach when carrying out risk assessments and ensures that audit plans are developed to cover the significant risks being faced by the Group. The Group's internal audit, subject to risk assessments, takes into account the need to provide the widest possible coverage of the Group to ensure that a culture of organisational ethics, good governance, risk management and control is promoted and practised throughout the Group. Accordingly, based on the nature and complexity of the Group's processes, generally a yearly audit plan is prepared by the IAG and approved by the BACC. The three-year strategic audit plan for the 2022G to 2024G period was presented to the BACC on 30 January 2022G and was approved by the BACC at the same meeting. The audit plan is a dynamic document and can be amended to incorporate any significant changes to the Bank's risk profile or business activities. All changes and modification to the approved internal audit plan are required to be presented to the BACC for approval.

The internal audits cover all activities, departments and legal entities in the Bank and are risk-assessed periodically to determine the frequency and priority of the audits. They also assess and make appropriate recommendations for improving the governance, system of internal controls and risk management processes. The results of the audits, with detailed recommendations for improvements, are tracked to ensure full resolution. All observations are shared with senior management and the BACC for monitoring and action tracking purposes. In addition, the Internal Control Committee, chaired by the Chief Financial Officer ("**CFO**"), is responsible for reviewing, discussing and enforcing deadlines and actions, task accountability and setting clear priorities for actions that need to be taken across the Group to remediate all escalated high-risk internal control deficiencies or gaps and other issues related to identified key risk areas or processes.

COMPLIANCE

The Bank defines compliance risks as the risks that result in or lead to the application of regulatory, legal or administrative penalties, or incurring serious financial losses or damage to its reputation, as a result of its non-compliance with the rules and regulations and regulatory and ethical standards applicable to its banking activities.

The Bank's compliance function is an independent group managed by the Group Chief Compliance Officer ("**GCCO**") who is appointed by the Board and reports directly to the CEO. The compliance group shares frequent reports with the Board Audit and Compliance Committee. The GCCO has the authority to directly communicate with the Board, or its committees, whenever required under SAMA's compliance principles.

The Compliance Group manages the Bank's responsibilities towards combating money laundering and terrorist financing. It organises anti-money laundering and anti-terrorist financing training within the Bank, monitors and reports transactions, receives internal reports on suspicious activities and makes official reports on suspicious activities to the Financial Intelligence Unit and relevant law enforcement agencies upon SAMA's request.

The Bank has stringent customer identification policies which apply to all new customers and on an ongoing basis to existing customers. The Bank is also using reliable and independent sources to verify its customers' information.

The Bank screens its new and existing customers against international sanctions lists, including those of the United Nations and the U.S. Office of Foreign Assets Control, and local sanctions lists provided by SAMA. The Bank's sanctions compliance programme governs and informs all facets of the Bank's operations to ensure robust controlling measures. The programme creates a sanctions compliance framework to ensure compliance and effectively manage risk and it also addresses sanctions-related components of the Bank's policies and procedures.

In case of on-boarding and maintaining the relationship with local and foreign politically exposed persons or persons otherwise indicated as high risk, the Bank requires an approval from the CEO or another authorised officer.

The Compliance Group manages the Bank's responsibilities towards financial fraud through fraud prevention and risk assessment and fraud detection policies and procedures, investigating and prosecuting fraud and social engineering cases, bribery and corruption cases and insider information cases, investigating personal account dealing, designating whistle blowing channels to receive reports from employees, customers, vendors and the public in relation to fraud and malpractice and organising anti-fraud awareness campaigns for both employees and customers.

INFORMATION TECHNOLOGY

The Bank owns and operates two data centres in the different metropolitan areas in Riyadh which contain operating equipment and systems in a climatically controlled environment. The data centres are constantly monitored to ensure service availability and delivery according to the agreed service levels of the Bank.

The Bank continuously monitors and upgrades its technology platform and data centres. For example, in 2020G a number of strategic IT projects were successfully delivered including the transition to a state of the art Tier IV data centre and implementation of the first phase of its core banking replacement project.

- vvexpand smart channels and formats;
- enhance customer journeys;
- migrate customers to self-service channels; and
- deliver innovations in terms of payments.

The Bank places particular emphasis on data protection. For example, it encrypts data both at rest and during transmission while regulating data traffic using multi-layers of controls including firewalls to prevent system breaches. It employs dedicated controls against malicious activities, and ethical hacking is conducted on all new internet-based business applications and for subsequent changes. The Bank's IT infrastructure is backed up by its data centres. In addition, the Bank has built redundancy interruption and protection and recovery into its primary IT infrastructure with the use of automatic backup and mirroring facilities.

RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Group conducts transactions with its associate and mutual funds as well as with certain of its directors, shareholders, senior management and companies in which they have a significant interest. Related party transactions are governed by limits set by the Banking Control Law and regulations issued by SAMA and are performed on an arm's length basis.

	2021	2020	2019
		(SAR millions)	
Related parties			
Members of the Board of Directors			
Mutajara	172.4	59.3	67.7
Current accounts	376.4	242.3	320.1
Companies and establishments guaranteed by members of the Board of Directors			
Mutajara	12,127.2	10,222.9	7,244.2
Contingent liabilities	4,664.2	3,664.1	877.2
Associate			
Contributions payable	116.0	321.5	142.2
Receivable against claim	332.2	169.4	194.3
Bank balances	253.3	188.3	332.7

For further information, see note 30 to each of the audited Annual Financial Statements and the Bank's latest annual report, available at https://www.alrajhibank.com.sa/-/media/Project/AlrajhiPWS/Shared/Home/about-alrajhi-bank/Investor_Relation/Annual-Reports/Annual-Report-2021.pdf. As at the date of this Base Prospectus, save as already disclosed, the Bank does not have any other material related party agreements.

RISK MANAGEMENT

RISK GOVERNANCE

The Bank adopts sound governance principles for risk management, which is a shared responsibility across the Bank. The Credit & Risk Group (the "**CRG**") has primary responsibility for facilitating implementation of the risk management framework and measuring, monitoring and reporting the Bank's key risks. The CRG provides professional advice across all functional areas and is integral to the Bank's operations and culture.

The Bank's risk culture requires that each business unit and each employee is accountable for identifying and managing the risks embedded under their responsibilities. The overall governance structure is divided into two levels: management level committees and Board level committees. The Risk Management Committee (the "**RMC**"), whose members include the heads of all business functions, including risk, HR and compliance, and which is chaired by the CEO, reviews and monitors the key enterprise risks areas and exceptions on a periodic basis. At the Board level, the Board Risk Management Committee (the "**BRMC**") supports the Board in its role of overseeing the Bank's performance in line with its risk appetite.

The Bank's key risks are identified and plans of actions are developed to mitigate those risks on an annual basis. The identification of the key risks and their mitigation plans are discussed in RMC meetings and presented to the BRMC and the Board on an ongoing basis. The mitigation plans are reviewed regularly and the implementation of the action plans are monitored.

RISK MANAGEMENT OBJECTIVES

The primary objectives of the Bank's risk management function of the Bank are to:

- operationalise the Bank's risk management policies by establishing the required systems, processes and procedures;
- assist in decisions relating to accepting, transferring, mitigating and minimising risks and recommending ways of doing so;
- evaluate the risk profile against the approved risk appetite on an ongoing basis;
- estimate potential losses that could arise from risk exposures assumed;
- periodically conduct stress testing in accordance with regulatory requirements;
- ensure that the Bank holds sufficient buffers of capital and liquidity to meet unexpected losses and honour its contractual obligations;
- integrate the Bank's risk management practice with strategy development and execution; and
- institutionalise a strong risk culture within the Bank including conduct risk enforcement.

RISK MANAGEMENT APPROACH

The Bank's risk management function operates within the regulatory framework set out by SAMA. The Bank's ICAAP, which details the Bank's risk appetite, risk management approach, and primary risk controls, is submitted to SAMA on an annual basis following its review by the BRMC and approval by the Board. The BRMC also reviews and provides recommendations to the Board on the Bank's Internal Liquidity Adequacy Assessment Plan ("**ILAAP**"), which is also submitted to SAMA on an annual basis.

To remain profitable, the Bank must manage risks with prudence and pragmatism by accurately identifying potential risks and their impact on the Bank's value creation process. This process involves establishing risk thresholds, which are derived from the bank's risk appetite. The Bank has policies and procedures that help it to identify and analyse relevant risks, manage its capital effectively, and provide shareholders with sustainable returns.

The role of the CRG, headed by the Chief Risk Officer, is crucial to the Bank's management of risk across its operations. The CRG works within the risk framework and policies approved by the Board and its remit encompasses credit risk management, operational risk management and enterprise risk management. The CRG's reports to the Board and related committees cover credit risks and portfolio asset quality, operational risks, liquidity risks, market risks, reputational risks and technology and cybersecurity risks.

The ALCO monitors the Bank's liquidity risk. Its remit includes day-to-day management of funds to ensure that funds are available when necessary to meet commitments, monitoring liquidity ratios against benchmarks and managing the concentration and profile of debt maturities.[1]

The CRG regularly monitors market risks, submitting monthly reports to the ALCO for assessment. The ALCO ensures that risks taken are appropriate but initiates mitigating action if they are not within the Bank's risk appetite.

The Bank's diverse customer base fortifies the Bank against a number of risks. The Bank segments its customer base into three primary areas:

- retail banking;
- SMEs; and
- corporate banking.

In this way, the Bank aligns its value proposition in terms of products, services, and delivery channels to better cater to its customers' needs. The Bank's retail customer-oriented business model provides a diverse risk profile that is supplemented by its robust corporate banking customer base. The extensive branch network endears the Bank to its loyal customer base, generating a high level of stable sticky demand deposits, which in turn have a positive impact on the Bank's liquidity.

The Bank's risk management practices support its long-term value creation plans by regulating the entire customer journey from on-boarding to advancing finance and providing reliable and relevant products and services.

CREDIT RISK

Overview

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

Approval, disbursements, administration, classification, recoveries and write-offs for retail, SME and corporate credits are governed by the Bank's retail, SME and corporate credit policies, respectively, which are reviewed by CRG and approved by the BRMC and the Board. The Bank manages limits and controls concentrations of credit risk wherever they are identified, in particular to individual customers and groups, and to industries and countries.

All SME, corporate and financial institution credit proposals are independently reviewed by CRG and recommended to the appropriate approval authority, which includes the management level credit committee and the Board's Executive Committee. The Bank has comprehensive product programme manuals highlighting the requirements of every aspect of retail lending. The Bank's compliance team ensures that SAMA guidelines are complied with and, as part of the internal audit plan, the Bank's internal audit team reviews the credit approval process and submits its findings to the BAC for review.

Comprehensive portfolio reports, including the top 10 watch list exposures, the top 10 non-performing financing exposures and the top 10 written off exposures for both the corporate and the SME portfolios are presented to the management level RMC, the BRMC and the Board on a regular basis. The report highlights the status of the exposure, recoveries, if any, collateral accepted, provisions held against these accounts and the action plan to regularise or recover the due amounts from these accounts.

Credit risk concentration

Concentrations of credit risks arise when a number of customers are engaged in similar business activities, activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risks indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

The Bank seeks to manage its credit risk exposure through diversification of its financing to ensure there is no undue concentration of risks to individual or groups of customers in specific geographical locations or economic sectors, This is achieved through risk appetite thresholds, target market criteria and risk acceptance criteria

The Bank manages credit risk by placing limits on the amount of risk accepted in relation to individual customers and groups, and to geographic and economic segments. Such risks are monitored on a regular basis and are subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, economic sector and by country are reviewed at least annually by the BRMC.

Credit risk measurement

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

This risk rating methodology utilises a 10 point scale based on quantitative and qualitative factors with seven performing categories (rated 1 to 7) and three non-performing categories (rated 8-10). The table below shows this classification.

Risk Rating	Category	Description
1	Exceptional	Obligors of unquestioned credit standing at the pinnacle of credit quality.
2	Excellent	Obligors of the highest quality, presently and prospectively. Virtually no risk in lending to this class, cash flows reflect exceptionally large and stable margins of protection. Projected cash flows including anticipated credit extensions indicate strong liquidity levels and debt service coverage. Balance sheet parameters are strong, with excellent asset quality in terms of value and liquidity.
3	Superior	Typically obligors at the lower end of the high quality range with excellent prospects. Very good asset quality and liquidity. Consistently strong debt capacity and coverage. There could however be some elements, which with a low likelihood might impair performance in the future.
4	Good	Typically obligors in the high end of the medium range who are definitely sound with minor risk characteristics. Elements of strength are present in such areas as liquidity, stability of margins, cash flows, diversity of assets, and lack of dependence on one type of business.
5	Satisfactory	These are obligors with smaller margins of debt service coverage and with some elements of reduced strength. Satisfactory asset quality, liquidity and good debt capacity and coverage. A loss year or declining earnings trend may occur, but the borrowers have sufficient strength and financial flexibility to offset these issues.
6	Adequate	Obligors with declining earnings, strained cash flow, increasing leverage and/or weakening market fundamentals that indicate above average risk, such borrowers have limited additional debt capacity, modest coverage, average or below average asset quality and market share. Present borrower performance is satisfactory, but could be adversely affected by developing collateral quality/adequacy etc.
7	Very high risk	Generally undesirable business constituting an undue and unwarranted credit risk but not to the point of justifying a substandard classification. No loss of principal or profit has taken place. Potential weakness might include a weakening financial condition, an unrealistic repayment programme, inadequate sources of funds, or a lack of adequate collateral, credit information or documentation. The entity is undistinguished and mediocre. No new or incremental credits will generally be considered for this category.
8	Substandard	Obligors in default and 90 days past due on repayment of their obligations. Unacceptable business credit. Normal repayment is in jeopardy, and there exists well defined weakness in support of the same. The asset is inadequately protected by the current net worth and paying capacity of the obligor or pledged collateral. Specific provision raised as an estimate of potential loss.
9	Doubtful	Obligors in default and 180 days past due on their contracted obligations, however in the opinion of the management recovery/salvage value against corporate and real estate obligors is a possibility, and write-off should be deferred. Full repayment questionable. Serious problems exist to the point where a partial loss of principal is likely. Weaknesses are so pronounced that on the basis of current information, conditions and values, collection in full is highly improbable. Specific provision raised as an estimate of potential loss. However, for retail obligors (except real estate) and credit cards, total loss is expected and a 100 per cent. specific provision must be triggered followed by write-off in accordance with the Bank's write off policy.
10	Loss	Obligors in default and 360 days past due on their obligations. Total loss is expected. An uncollectible asset which does not warrant classification as an active asset. 100 per cent. specific provisioning must be triggered followed by write-off in accordance with the Bank's write-off policy.

The risk rating process is intended to advise the various independent approval authorities of the inherent risks associated with the counterparty and assist in determining suitable pricing commensurate with the associated risk.

For corporate exposures, the Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower. The 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 the available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring of corporate exposure involves use of the following data:

- information obtained during periodic review of customer files, for example audited financial statements, management accounts, budgets and projections;

- data from credit reference agencies, press articles and changes in external credit ratings; and

- actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.

The Bank collects performance and default information about its customers analysed by segment as well as by credit risk grading.

Modified financial assets

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

The Bank renegotiates financings 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, forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

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

Forbearance is a qualitative indicator of a significant increase in credit risk, and an expectation of forbearance may constitute evidence that an exposure is credit-impaired or in default. A customer needs to demonstrate consistently good payment behaviour over a period of 12 months before the exposure is no longer considered to be credit-impaired or in default.

Risk limit control and mitigation policies

The responsibility for credit risk management is enterprise-wide in scope. Strong risk management is integrated into daily processes, decision making and strategy setting, thereby making the understanding and management of credit risk the responsibility of every business segment.

The monitoring and management of credit risk associated with the Bank's financing are made by setting approved credit limits. The Bank manages limits and controls concentrations of credit risk wherever they are identified, in particular, to individual customers and groups, and to industries and countries.

Concentrations of credit risks arise when a number of customers are engaged in similar business activities, activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risks indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location. The Bank seeks to manage its credit risk exposure through diversification of its financing to ensure there is no undue concentration of risks to individuals or groups of customers in specific geographical locations or economic sectors.

The Bank manages credit risk by placing limits on the amount of risk accepted in relation to individual customers and groups, and to geographic and economic segments. Such risks are monitored on a regular basis and are subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, economic sector and by country are reviewed at least annually by the Board's Executive Committee. Exposure to credit risk is also managed through regular analysis on the ability of customers and potential customers to meet their financial and contractual repayment obligations and by revising credit limits where appropriate.

Collateral management

In the ordinary course of its financing activities, the Bank holds collateral as security to mitigate credit risk. This collateral mostly includes customer deposits and other cash deposits, financial guarantees, local and international equities, real estate and other property and equipment. The collateral is held mainly against commercial and consumer financing and managed against the relevant exposures. The fair value of collateral is based on valuations performed by independent experts, quoted prices (wherever available) and other valuation techniques. Experts have used various approaches in determining the fair value of real estate collateral, including the market comparable approach based on recent sales or the discounted cash flow approach taking into account risk adjusted discount rates, rental yields and terminal values.

The table below shows the gross balances of the Bank's individually impaired financing and the fair value of the related collateral held as at 31 December in each of 2021G, 2020G and 2019G.

	Retail	Corporate	Total
		(SAR million)	
2021G			
Individually impaired financing	1,500.1	1,510.0	3,010.1
Fair value of collateral	925.3	135.4	1,060.6
2020G			
Individually impaired financing	754.2	1,690.9	2,445.1
Fair value of collateral	573.6	453.2	1,026.8
2019G			
Individually impaired financing	629.7	1,687.1	2,316.8
Fair value of collateral	214.9	522.1	737.0

Impairment of financings

The Bank impairs its financial assets in accordance with IFRS 9. Detailed disclosures on its impairment policies can be found in notes 3(f)(5) and 27-1 to its audited 2021G Financial Statements.

MARKET RISK

The Bank is exposed to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risks arise on profit rate products, foreign currency and mutual fund products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as profit rates, foreign exchange rates and quoted market prices.

Market risk exposures are monitored by Treasury and CRG and reported to the ALCO on a monthly basis. The ALCO deliberates on the risks taken and ensures that they are appropriate.

The Bank is not exposed to market risks from speculative operations as the Shari'a principles under which it operates do not permit it to enter into contracts or speculative transactions.

Profit rate risk

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

Profit rate risk arises from the possibility that changes in profit rates will affect either the fair values or the future cash flows of financial instruments. The Board has established profit rate gap limits for stipulated periods. The Bank monitors positions daily and uses gap management strategies to ensure the maintenance of positions within the established gap limits.

The sensitivity of the Bank's gross financing and investment income to a 25 basis point change in profit rates, with other variables held constant, was SAR 325 million in 2021G. The sensitivity reflects the effect of the assumed changes in profit rates for one year, based on the floating rate non-trading financial assets and financial liabilities held as at the end of the year.

Note 27-3(b) to the audited 2021G Financial Statements contains a table that shows the Bank's profit rate gaps resulting from the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Bank manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

Foreign currency risks

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Bank's management has set limits on positions by currencies, which are regularly monitored to ensure that positions are maintained within the limits.

The Bank manages its exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The Bank's sensitivity analysis, set out in note 27-3(b) to the audited 2021G Financial Statements, shows that the only significant exposure is to the U.S. dollars (which has been pegged to the riyal at a fixed rate since 1986G). Under the analysis, a 2 per cent. change in the U.S. dollar exchange rate against the riyal, with all other variables held constant, would have impacted the Bank's net income by SAR 41.0 million in 2021G.

Note 27-3(b) to the audited 2021G Financial Statements also contains a table that shows the Bank's exposure to foreign currency exchange rate risk.

Price risk

The Bank has certain investments which are carried at FVSI and FVOCI. Price risk in relation to these investments arises due to changes in their fair value. As these investments are in a limited number of funds and are not significant to the Bank's total investment portfolio, the Bank monitors them periodically and determines the risk of holding them based on changes in market prices. Other investments have little or no risk as these are bought for immediate sale. Investments are made only with a confirmed sale order.

Equity risk refers to the risk of decrease in the fair values of the Bank's equities in its non-trading investment portfolio as a result of reasonably possible changes in levels of equity indices and the value of individual stocks. The Bank's sensitivity analysis, set out in note 27-3(c) to the audited 2021G Financial Statements, shows that a 10 per cent. change in the levels of equity indices and the value of individual stocks would have impacted the Bank's other comprehensive income by SAR 532 million in 2021G.

LIQUIDITY RISK

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay deposits and financing parties and fulfil financing commitments. Liquidity risk can be caused by market disruptions or by credit downgrades, which may cause certain sources of funding to become unavailable immediately. Diverse funding sources available to the Bank help mitigate this risk. Assets are managed with liquidity in mind, maintaining a conservative balance of cash and cash equivalents.

The Board has the ultimate responsibility for the management of overall liquidity risk within the Bank. The Board has delegated authority to the ALCO to ensure daily, timely and effective liquidity risk management. The Bank recognises that there is no one metric or event that could address all the dimensions or causes of liquidity risk. As a result, a liquidity risk control framework has been established, along with approved liquidity risk appetite parameters, within which the Banks's liquidity function operates. The liquidity risk tolerances are defined as part of Bank's liquidity/treasury risk appetite statement which is approved by the Board. The key liquidity risk measures include gaps and ratios, including the liquidity coverage ratio and the net stable funding ratio, which are reported to the ALCO on a monthly basis and to the BRMC at frequent intervals. The Bank's liquidity risk and asset and liability management policies are updated on an annual basis to reflect the changing operating environment and the Bank's strategy.

The Bank's liquidity management process includes:

- day-to-day funding, managed by Treasury, to ensure that requirements can be met, and this includes replenishment of
- funds as they mature or are invested;
- monitoring balance sheet liquidity ratios against internal and regulatory requirements;
- managing the concentration and profile of debt maturities;
- maintaining diversified funding sources; and
- liquidity management and asset and liability mismatching.

Monitoring and reporting take the form of analysing cash flows of items with both contractual and non-contractual maturities. The net cash flows are measured to ensure that they are within acceptable ranges. The Treasury and the ALCO also monitor the level and type of undrawn lending commitments, the usage of overdraft facilities and the potential impact that contingent liabilities, such as standby letters of credit and guarantees, may have on the Bank's liquidity position.

Management also monitors the Bank's maturity profile to ensure that adequate liquidity is maintained. Assets available to meet liabilities and to cover outstanding financing commitments include cash, balances with SAMA and due from banks. Further, in accordance with the Banking Control Law and Regulations issued by SAMA, the Bank maintains a statutory deposit equal to a sum not less than 7 per cent. of total customers' deposits, and 4 per cent. of total other customers' accounts.

In addition to the statutory deposit, the Bank maintains a liquid reserve of not less than 20 per cent. of its deposit liabilities, in the form of cash, gold or assets, which can be converted into cash within a period not exceeding 30 days. Also, the Bank has the ability to raise additional funds through special financing arrangements with SAMA, including deferred sales transactions.

The Bank's liquidity risk control and mitigation techniques include identifying and assessing, measuring and monitoring liquidity risks, conducting regular and ad hoc risk analyses (such as stress tests), reporting the findings and making recommendations to the ALCO through the Chief Risk Officer. The Bank also conducts an annual ILAAP exercise which provides the Bank with an opportunity to estimate its liquidity gap positions and ratios over next one-year horizon. This enables the Bank to plan accordingly for any systemic or bank driven internal liquidity stress assessment. As part of its ILAAP exercise, the Bank has a contingency funding plan in place that can be invoked in stress liquidity situations.

Note 27-2 to the audited 2021G Financial Statements contains tables showing the maturities of the Bank's assets and liabilities by defined time buckets and the gaps in each period.

OPERATIONAL RISK

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Legal risk includes, but is not limited to, exposure to fines, penalties or damages resulting from supervisory actions, as well as private settlements. The Bank's operational risk framework sets the policies to identify, assess, measure, monitor, manage (through mitigation, transfer and acceptance) and report operational risk. The Bank's directors, management and all staff members are accountable for managing operational risk in line with the roles and responsibilities. The overall effectiveness of the sound operational risk governance relies upon the following three lines of defence model: 1st line - business line management; 2nd line - an independent operational risk management function; and 3rd line - an independent review function which, in the Bank's case, is its Internal Audit team.

The Bank's operational risk management framework encompasses risk and control self-assessment, key risk indicators, incident reports, operational risk loss data and its information technology risk and business continuity and disaster recovery plan. The Operational Risk Committee oversees the implementation of the operational risk framework and reports to the RMC.

The Operational Risk Management Department (the "**ORMD**") within the CRG facilitates the management of operational risk in the Bank. The ORMD promotes a responsible culture of transparency, vigilance, openness, awareness and of being proactive across the Bank. It enforces responsibility and accountability for the management of operational risk across the Bank and is responsible for developing processes, tools and methodologies, overseeing their implementation and use within the business units and providing on-going monitoring and guidance across the Bank.

MANAGEMENT AND EMPLOYEES

OVERVIEW

The Board is the ultimate decision-making forum of the Group. The members of the Board are under a duty to provide effective governance and supervise the executive management on behalf of the Bank's shareholders and to balance the interest of its diverse constituencies, including its customers, employees, suppliers and local communities.

The Board, directly and through its committees, and the Chairman of the Board, provide direction to the Group's management, generally through the CEO, to pursue the best interests of the Group. The Board has the highest authority in managing the affairs of the Group. The Board can delegate some of its decision-making authority and responsibilities to the CEO, other executive members, or one or more of its committees. The Board or its committees meet at least every quarter.

The members of the Board and the Bank's executive management team have extensive knowledge of the banking sector in Saudi Arabia and the wider MENA region and many have significant experience in leading financial institutions.

In accordance with the companies law promulgated under Royal Decree no. (M/3) dated 28/01/1437H, (corresponding to 10/11/2015G) as amended by Royal Decree no. (M/79) dated 25/07/1439H (corresponding to 11/04/2018G) (the "**Companies Law**"), the Board comprises 10 members (the "**Directors**") elected by the general assembly every three years, including the Chairman.

All decisions taken by the Board are consistent with the authority delegated to it by the shareholders. The Board is responsible for taking all the decisions of the Bank other than those matters reserved to the shareholders pursuant to the Bylaws of the Bank or the law. Any resolution that requires clearance from the General Assembly of Shareholders must be approved in accordance with certain prescribed procedures including obtaining clearance from the Saudi Ministry of Commerce and SAMA. Accordingly, the shareholders do not independently influence the Board except through voting during a General Assembly meeting. Board members are appointed for three-year terms, which are staggered, and all Board members nominated by the shareholders must be approved by SAMA.

The Board exercises control and oversight over the Bank's subsidiaries both by having members of its senior management team on the boards and in board-level committees of the subsidiaries and by institutionalising a governance arrangement with the Group's control functions. Board members of the subsidiaries receive regular reports to enable them to exercise effective oversight. In addition, a quarterly risk report is presented to the Bank's Board Risk committee.

BOARD OF DIRECTORS

The table below shows the members of the Board.

Name	Title
Abdullah bin Sulaiman Al Rajhi	Chairman
Ibrahim bin Mohammed Al Romaih	Vice Chairman
Alaa bin Shakib Al Jabri	Board Member
Abdulaziz bin Khaled Al Ghufaily	Board Member
Badr bin Mohammed Al Rajhi	Board Member
Khaled bin Abdulrahman Al Gwaiz	Board Member
Ibrahim bin Fahad Al Ghofaily	Board Member
Hamza bin Othman Khushaim	Board Member
Raeed bin Abdullah Al Tamimi	Board Member
Abdulatif bin Ali Al Seif	Board Member

The business address of each of the directors is Al Rajhi Bank, 8467, King Fahd Road – Al Muruj District, Unit No. 1, Riyadh 12263 – 2743, Saudi Arabia. There are no potential conflicts of interest between the duties owed to the Bank by the persons listed above and their private interests or other duties.

Abdullah bin Sulaiman Al Rajhi - Chairman

Abdullah Al Rajhi was appointed the Chairman of the Bank in October 2014G and is a member of the Executive Committee. He has over 40 years of experience in the banking, financial and investment fields.

He is the Chairman of the Board of many other Saudi Arabian companies, including AR CCI, AR Capital, Al Rajhi Holding Group Company, Farabi Petrochemicals Company, Indoor and Outdoor Flooring Fabrics Solutions Company, Al Ajial Holding Company and Fursan Travel and Tourism Company.

He held many executive positions in the Bank between 1979G and March 2012G, including CEO, General Manager, Senior Deputy General Manager, Deputy General Manager of Financial Affairs and Deputy General Manager of Investment and Foreign Relations. He has a Bachelor of Business Administration degree from King Abdulaziz University.

Ibrahim bin Mohammed Al Romaih - Vice Chairman

Ibrahim Al Romaih was appointed Vice Chairman of the Bank in November 2020G and is a member of the Executive Committee, the Chairman of the Nominations and Compensations Committee and the Chairman of the Governance Committee. He has over 30 years of experience in the banking, financial and investment fields.

He is a Board Member of Saudi Arabian Investment Company.

His previous positions include CEO of Saudi Arabian Investment Company, Deputy CEO of the Saudi Capital Market Authority, Assistant Secretary General of the Public Investment Fund a Board Member of both National Commercial Bank and Energy and Water Works Company.

He has a Bachelor's degree in Economics from Portland State University, USA and a Master's degree in Economics from Central Michigan University, USA.

Alaa bin Shakib Al Jabri - Board Member

Alaa Al Jabri was appointed a Member of the Board in October 2014G and is the Chairman of the Board Risk Management Committee. He has over 30 years of experience in the banking and financial fields.

He is a Board Member of Medical and Pharmaceutical Services Company.

His previous positions include being a Board Member of SIMAH, the Higher Education Fund, Saudi Travelers Cheques Company, Arab International Bank – Tunisia, Construction Products Holding Company and Rolaco Group.

He has a Bachelor's degree in business administration from the American University in Beirut and a Master's degree in business administration from INSEAD, France.

Abdulaziz bin Khaled Al Ghufaily - Board Member

Abdulaziz Al Ghufaily was appointed a Member of the Board in March 2011G and is a member of the Nominations and Compensations Committee. He has over 25 years of experience in the financial investment field.

He is also a Board Member of AR Capital, Savola Group Company and National Petrochemical Industry Company.

His previous positions include General Manager of Financial and Insurance Investments at Hassana Investment Company and a Board Member of each of Industrialization & Energy Services Company, Riyadh Hotels and Entertainment Company, Saudi Industries Development Company, Tabuk Agriculture Development Company, National Medical Care Company, Herfy Food Services and Panda Retail Company.

He has a Bachelor's degree in Economics from King Saud University and a Master's degree in Economics from Western Illinois University, USA.

Badr bin Mohammed Al Rajhi - Board Member

Badr Al Rajhi was appointed a Member of the Board in March 2011G. He has 30 years of experience in the management, industry and real estate investment fields.

He is the Managing Director and Vice Chairman of Mohammed Abdulaziz Al Rajhi & Sons Investment Company and Chairman of the Board of Al Rajhi Steel Industries Co. Ltd. He is also Chairman of the Boards of Berain Company, Saudi Tourism Development Company, DAEM Real Estate Investment Company, MYO Osteopathy Medical Company, International Equestrian Resort Company and Al Badr Al Zaher Investment Company and Vice Chairman of the Board of Al Jazirah Home Appliance Co. Ltd.

Khaled bin Abdulrahman Al Gwaiz - Board member

Khaled Al Gwaiz was appointed a Member of the Board in October 2014G and is a member of the Nominations and Compensations Committee and the Board Risk Management Committee. He has more than 30 years of experience in the banking, financial and industrial fields.

He is the Chairman of the Board of Riyadh Cables Group Company and a Board Member of each of EMCOR Facilities Services, Saudi Pharmaceutical Industries & Medical Appliances Corporation, Tasnee Company and Bawan Company. He is also the CEO of Bin Ladin International Group.

His previous positions include Managing Director of ACWA Holding Company and Board Member of each of Saudi Tabreed Company, Swicorp Company, Unique Solutions for Chemical Industries and Synergy Consulting Company.

He has a Bachelor's degree in Urban Planning from the University of Washington, USA.

Ibrahim bin Fahad Al Ghofaily - Board Member

Ibrahim Al Ghofaily was appointed a Member of the Board in October 2017G and is a member of the Governance Committee. He has 10 years of academic and 10 years of practical experience in Islamic banking.

He is a Board Member of Jiwar Real Estate Management, Marketing and Development Company and the Head of Arriyada Financial Consulting Center, which he established in 2002G.

His previous positions include Board Member of Alinma Bank. Financial Consultant of King Abdulaziz Endowment for the Two Holy Grand Mosques (Abraj Al Bait Complex) in Makkah, Deputy General Manager of Banking and Development at the Bank and Vice Dean of the Faculty of Economics and Management at King Abdulaziz University.

He has a Bachelor's degree in Public Administration from King Abdulaziz University, a Master's degree in Public Administration from California State University, USA and a PhD in Organizational Development from Florida State University, USA.

Hamza bin Othman Khushaim - Board Member

Hamza Khushaim was appointed a Member of the Board in October 2017G and is a member of the Executive Committee and the Board Risk Committee. He has 16 years of experience in investment.

He is Director of Investment, Financial Markets at Hassana Investment Company, a Member of the Saudi Investor Association and a Certified Member of the Association of Financial Analysts, USA.

His previous positions include Hedge Fund Portfolio Manager at KAUST Endowment, Hedge Fund Portfolio Manager at Investment Management, Treasury, Saudi Aramco, Financial Analyst at Investment Management, Treasury, Saudi Aramco and Board Member of Dallah Healthcare Holding Company.

He has a Bachelor's degree in Finance from Michigan State University, USA and a Master's degree in Business Administration from the University of Michigan in Ann Arbor, USA.

Raeed bin Abdullah Al Tamimi - Board Member

Raeed Al Tamimi was appointed a Member of the Board in October 2017G and is a member of the Governance Committee and the Nominations and Compensations Committee. He has 20 years of management experience.

He is a Board Member of each of SAPTCO and GASCO.

His previous positions include CEO of Tawuniya Insurance Company, CEO of National Medical Care Company and Board Member of each of Tawuniya Insurance Company, National Medical Care Company, Waseel Electronic Information Transfer and Najm Insurance Services Company. He has a Bachelor's degree in Medical Science from the University of Wales, UK.

Abdulatif bin Ali Al Seif - Board Member

Abdulatif Al Seif was appointed a Member of the Board in October 2017G and is a member of the Executive Committee. He has more than 19 years of experience in the financial and investment fields.

He is a Board Member of each of Arabian Cement Company, National Petrochemical Company, Wisayah Global Investment Company, Nahdi Medical Company, Abdullah Al Othaim Investment Company and STC Solutions.
His previous positions include Deputy Head and Head of Investment at King Abdullah Humanitarian Foundation, Director of Portfolio Management at Masik, Head of Portfolio Management, Investment Management Division at Saudi Aramco, Board Member at HSBC Saudi Arabia, Executive Director at Vision Combined Limited Company and Board Member and CEO at Alra'idah Investment Company.

He has a Bachelor's degree and a Master's degree in Business Administration from Boston University, USA and a Master's degree in Economics from Boston University, USA.

DIRECTORS' SHAREHOLDING

The table below sets out details of the ownership of the shares of the Bank held by various members of the Board as at the date of this Base Prospectus:

Name	Position	Capacity	Nationality	Number of shares held		Share holding (%)	
				Direct	Indirect*	Direct	Indirect*
Abdullah S. Alrajhi	Chairman	Non-executive	Saudi	87,166,949	427,555,363	2.1791737%	10.68%
Ibrahim M. AlRomaih	Vice Chairman	Independent	Saudi	22,011	N/A	0.0005503%	N/A
Alaa S. AlJabri	Director	Independent	Saudi	N/A	N/A	N/A	N/A
Khalid A. AlGwaiz	Director	Independent	Saudi	N/A	N/A	N/A	N/A
Abdulaziz K. AlGhofaily	Director	Non-executive	Saudi	51,691	N/A	0.0012923%	N/A
Bader M. AlRajhi	Director	Non-executive	Saudi	3,647,972	105,700,586	0.0911993%	2.64251465%
Hamzah O. Khushaim	Director	Non-executive	Saudi	N/A	N/A	N/A	N/A
Raeed A. AlTamimi	Director	Independent	Saudi	N/A	N/A	N/A	N/A
Ibrahim F. AlGhofaily	Director	Independent	Saudi	1,036,523	151,864	0.0259131%	0.0037966%
Abdulatif A.ElSeif	Director	Non-executive	Saudi	1,600	N/A	0.0000400%	N/A

Source: The Bank

*The shares owned by the directors indirectly in the Bank through their ownership in companies that own in the Bank, or the shares owned by the relatives (and they include spouses and minor children) of the Directors directly or through their ownership in companies owning shares in the Bank.

The chairman of the board of directors, Mr. Abdullah S. Alrajhi, has an indirect ownership (as defined above) of a total of 10,600,000 shares representing 26.5% in AR CCI, according to the information available to the Bank.

EXECUTIVE MANAGEMENT

The Bank's executive management team is responsible for managing the Bank's day-to-day activities in accordance with the business and operational strategies set by the Board. The main objectives of the senior management team are:

- translating strategic and business plans into a corporate strategy and performance targets;
- allocating resources to drive business performance against agreed plans;
- managing business risk effectively, and balancing risk and reward within agreed guidelines; and

- managing the talent pool for sustainable business performance.

The table below shows the members of the Bank's executive management:

Name	Title
Waleed Abdullah Al Mogbel	Chief Executive Officer
Abdulrahman Abdullah Alfadda	Chief Financial Officer
Abdullah S. Alomari	Chief Operating Officer
Abdulaziz Saad Al Resais	Chief Risk Officer
Hossam Essam Al Basrawi	General Manager Corporate Banking Group
Saleh Abdullah Alheidan	General Manager Shari'a Group
Abdullah Sulaiman Alnami	Chief Compliance Officer
Majed Saleh Al Rajhi	General Manager Retail Banking
Ibraheem Hamad Alzeer	Acting Chief Governance and Legal Officer
Ahmed Saleh Al Sudais	Chief Human Resources Officer
Abdullah Al Furaiji	Chief Digital Officer
Dhary M. AlShamry	Chief Internal Auditor
Abdulrahman M. Alajaji	General Manager Treasury Group
Mushal Mustafa Alfadl	Chief Private Banking Officer
Turki Mohammed Aldhfayan	Chief Marketing and Customer Experience Officer
Amr Mohammad Sager	Assistant General Manager, Transformation and Change Management and Business Planning
Shihab Babi	Director of Customer Care

The business address of each of the members of executive management is Al Rajhi Bank, 8467, King Fahd Road – Al Muruj District, Unit No. 1, Riyadh 12263 – 2743, Saudi Arabia. There are no potential conflicts of interest between the duties owed to the Bank by the persons listed above and their private interests or other duties.

Waleed Abdullah Al Mogbel - CEO

Waleed Al Mogbel is the CEO of the Bank. He has 23 years of experience and was previously the Bank's Deputy Chief Executive Officer and Chief Operating Officer. He has a PhD in Accounting and Auditing.

Abdulrahman Abdullah Alfadda - Chief Financial Officer

Abdulrahman Alfadda is the Chief Financial Officer of the Bank. He has 24 years of experience and was previously the Bank's General Manager of Treasury and Financial Institutions. He has a Bachelor's degree in Electrical Engineering.

Abdullah S. Alomari – Chief Operating Officer

Abdullah Alomari is the Chief Operating Officer of the Bank. He was the Bank's Chief Information Officer and has 20 years of experience. Before joining the Bank, he was Senior Executive Officer Security and Privacy at Mobily Telecommunication Company and he has a Master of Science degree in Information Security.

Abdulaziz Saad Al Resais - Chief Risk Officer

Abdulaziz Al Resais is the Chief Risk Officer of the Bank. He has 20 years of experience and was previously the Bank's Assistant General Manager of Enterprise Risk Management. He has a Master's degree of Business Administration.

Hossam Essam Al Basrawi - General Manager Corporate Banking Group

Hossam Al Basrawi is the General Manager of the Corporate Banking Group. He has 24 years of experience and was previously Head of the Corporate Banking Group at Banque Saudi Fransi. He has a Bachelor's degree in Law.

Saleh Abdullah Alheidan - General Manager Shari'a Group

Saleh Alheidan is the General Manager of the Shari'a Group. He has 35 years of experience and was previously Associate Professor in the High Institute of Judiciary at Al Imam Mohammed bin Saud Islamic University. He has a PhD in Comparative Fiqh (Islamic Law).

Abdullah Sulaiman Alnami - Chief Compliance Officer

Abdullah Alnami is the Chief Compliance Officer. He has 26 years of experience in the banking industry. He has a Master's degree in Management and Business.

Ibraheem Hamad Alzeer - Acting Chief Governance and Legal Officer

Ibraheem Alzeer is the acting Chief Governance and Legal Officer. He has 15 years of experience and was previously Acting General Manager – Legal Advisor at Samba Financial Group. He has a Master's degree in Law from Georgetown University.

Ahmed Saleh Al Sudais - Chief Human Resources Officer

Ahmed Al Sudais is the Chief Human Resources Officer. He has 29 years of experience and was previously VP Human Capital at ACWA Power International. He has a Bachelor's degree in Accounting.

Abdullah Al-Furaiji - Chief Digital Officer

Abdullah Al-Furaiji is the Chief Digital Officer. He has 21 years of experience and been with the Bank since 2004G. He has a Bachelor's degree in Organisation and Management Development, Financial Accounting.

Majed Saleh Al Rajhi - General Manager Retail Banking

Majed Al Rajhi is the General Manager Retail Banking with over 14 years of experience. He has a Masters of Business Administration ("**MBA**") from the London Business School.

Dhary M. AlShamry - Chief Internal Auditor

Dhary AlShamry is the Chief Internal Auditor with over 20 years of work experience. He was previously the General Director of Internal Audit at the Authority. He holds a Bachelor's degree in Accounting from King Saud University and is a Board member at the Institute of Internal Auditors.

Abdulrahman M. Alajaji - General Manager Treasury Group

Abdulrahman Alajaji is the General Manager of the Treasury Group. He has 17 years of experience and was previously Head of Global Market – Sales at Saudi British Bank. He has a Bachelor's degree in Computer Science.

Mishal Mustafa Alfadl - Chief Private Banking Officer

Mishal Alfadl is the Chief Private Banking Officer. He has 25 years of experience and was previously Chief Private Banking – Western Region at National Commercial Bank. He has a Bachelor's degree in Business Management.

Turki Mohammed Aldhfayan - Chief Marketing and Customer Experience Officer

Turki Aldhfayan is the Chief Marketing and Customer Experience Officer. He has more than 13 years of experience and was previously the Bank's Head of Digital Experience.

Amr Mohammad Sager - Assistant General Manager Transformation & Change Management and Business Planning

Amr Sager is the Assistant General Manager Transformation & Change Management and Business Planning. He has 16 years of experience and was previously Chief Finance Officer at Shaker Group. He has an Executive MBA.

Shihab Babgi - Director of Customer Care

Shihab Babgi is the Director of Customer Care. He has more than 7 years of experience in the banking industry having previously worked at the Saudi British Bank (SABB) as its e-channels manager. He has a Bachelor's degree in Software Engineering.

CORPORATE GOVERNANCE

Board committees

The Bank has five Board level committees.

Executive Committee

The main purpose of the Executive Committee is to assume responsibility for the Bank's business operations and to make quick decisions regarding urgent issues and matters related to the Bank's business. The Executive Committee is responsible for reviewing, following up and approving the basic financial, non-financial, commercial, investment and operational decisions related to the Bank within the limits of the powers determined by the Board.

The Executive Committee comprises five members, namely the Chairman and four Board members. The Committee meets when required and held six meetings in 2021G and seven meetings in 2020G.

Nominations and Compensations Committee

The main purpose of the Nominations and Compensations Committee is to make recommendations to the Board on the nomination of Board members, Committee members and Senior Executives, preparing a description of the abilities and qualifications required for membership of the Board, evaluating the effectiveness and efficiency of the Board and Senior Management, ensuring that the Bank remains compliant with the internal incentive schemes and the rules of incentive practices issued by SAMA, and determining the principles and criteria for compensation in a manner that best achieves the interests of depositors, shareholders, and the Bank's strategic objectives.

The Nominations and Compensations Committee comprises four Board members. The Committee meets when required and held three meetings in 2021G.

Governance Committee

The main purpose of the Governance Committee is to support and maintain the highest standards in corporate governance on behalf of the Board and to ensure that wise governance practices are followed in all activities carried out by the Bank. The Committee does so by conducting an annual review of the general governance framework and related mechanisms. In addition, the Committee monitors cases of conflict of interest ensuring the continuous updating of the register of conflicts of interest, reviewing requests for exemption from the governance requirements of the Bank, and coordinating with the Bank's subsidiaries to support good and consistent corporate governance standards for all activities of the Group. The Committee also focuses on increasing awareness of the importance of governance and its activities within the Bank among all employees, shareholders and external stakeholders, conducting an annual evaluation of the performance of the Board, members of the Board and all Board Committees and Management Committees. It is also responsible for reviewing and updating the policies related to the Board and its members, the Bank's governance and the conflict of interests, in addition to following up on the implementation of the Corporate Governance Manual and its annexes and the Bank's Delegation of Authority matrix.

The Governance Committee comprises three Board members. The Committee meets when required and held four meetings in 2021G and one meeting in 2020G.

Audit and Compliance Committee

The main purpose of the BAC is to supervise the financial reporting process, oversee the internal and external auditors and submit recommendations to the Board and shareholders to approve, appoint and determine the remuneration or dismissal of the external auditors. In addition, it also reviews and approves the scope of the audit operations and their implementation, receives key audit reports and ensures that the senior management takes all necessary corrective measures in a timely manner to address any weaknesses in controls or non-compliance with policies, laws and regulations, or any other problems identified by the auditors.

The BAC comprises five members. The Committee meets when required and held six meetings in 2021G and six meetings in 2020G.

Board Risk Management Committee

The primary purpose of the BRMC is to advise the Board regarding risk tolerance and risk strategy, and to oversee management's implementation of this strategy. This includes the management of capital and liquidity strategies, credit and market risk management, operational risk, compliance risk, reputational risk and any other potential risks that the Bank may face.

The BRMC comprises three members. It meets when required and held six meetings in 2021G and five meetings in 2020G.

MANAGEMENT COMMITTEES

The Bank has 10 level 1 management committees, which report directly to Board committees. The level 1 management committees are:

High Management Committee

The primary purpose of the High Management Committee is to provide a forum for the Bank's executive managers to monitor and manage the Bank's financial performance, monitor customer experience, oversee execution of the Bank's strategic initiatives and resolve issues escalated by other committees. The High Management Committee reports to the Executive Committee.

Asset Liability Committee

The primary purpose of the ALCO is to monitor and manage the balance sheet (asset liability) risk. ALCO's role is to make strategic decisions regarding the mix and maturities of assets and liabilities and the level of medium/long term profit rate risk the Bank shall accept. It also reviews the Bank's financial risk and capital management. The ALCO reports to the Executive Committee.

Credit Committee

The purpose of the Credit Committee is taking credit decisions and monitoring credit activities within the discretionary authority delegated by the Board. The Credit Committee's role is also to periodically review and provide constructive recommendations on the credit policies, guidelines, processes and the future direction of the Bank's credit/investment activities for review and decision of the Board wherever applicable. The Credit Committee reports to the Executive Committee.

Risk Management Committee

The purpose of the Risk Management Committee is to review how effectively the Bank's businesses groups are managing their risks, and to provide strategic and tactical direction for the management of risks. The Risk Management Committee must ensure the adequate involvement of Internal Audit when and where necessary. The Risk Management Committee reports to the BRMC.

Retail Risk Committee

The purpose of the Retail Risk Committee is to review the retail portfolio credit performance, to analyse the changes and to determine and decide implications for effective portfolio management. The Retail Risk Committee reports to the BRMC.

Compliance Committee

The purpose of the Compliance Committee is to oversee the compliance risks in the Bank, ensure that the Bank's management understands compliance risks and to have in place appropriate policies and procedures to manage such risks. The Compliance Committee reviews actions taken to ensure a robust and consistent compliance system is in place, promote a high compliance culture, and assists the BAC in ensuring compliance. The Compliance Committee reports to the BAC.

Transformation Committee

The purpose of the Transformation Committee is to follow up the investments allocated by the Board for the fulfilment of the Bank's strategy, and to approve and track projects which are linked to this across all phases and levels. The Transformation Committee provides its report on work progress and projects implementation update to the Executive Committee and the Board.

Micro, Small and Medium Enterprises (MSME) Steering Committee

The purpose of the MSM Steering Committee is for the Bank to have a clear strategic focus on micro, small and medium enterprises banking in line with its overall medium term plans, SAMA regulations and Vision 2030 mandates.

Business Continuity Management Committee (BCMC)

The purpose of the BCMC is to oversee the Bank's business continuity programme in order to reduce the business interruption risk in all Bank activities and enable proactive actions to be taken for every business interruption to the Bank's Saudi Arabian and international activities.

Corporate Special Assets Committee (CSAC)

The purpose of the CSAC is to manage, remedy and provide solutions for the Bank's special assets. The CSAC represents a forum to examine and review the Bank's assets classified as watch-list, NPLs and write off and to provide recommendation on required remedial actions to the Executive Committee for approval.

EMPLOYEES

As at 30 June 2022G, the Bank had 9,404 employees, of which 97.4 per cent. were Saudi citizens.

The Bank has a structured approach to the acquisition and development of talent to meet the needs of the business. Critical positions are systematically identified and comprehensive succession plans and individual development plans are aligned to ensure that a capable and high-performing talent pipeline is maintained. Development activities are focused upon the continuous improvement of employees' behavioural as well as technical capability with clarity provided through well-defined career plans leading through to senior executive roles.

Training is an important component of the Bank's strategic aim of attracting and retaining highly qualified and motivated personnel. To that end, the Bank has an Academy covering leadership and banking operations learning programmes for its new and existing employees designed to equip them with the skills and know-how necessary to perform their functions with efficiency and to enhance their internal promotion opportunities.

The Bank has implemented a strong performance-driven employee value proposition for its employees through a systematic performance management system with measurable metrics for performance and rewards.

THE KINGDOM OF SAUDI ARABIA BANKING SECTOR AND REGULATIONS

GENERAL

As at the date of this Base Prospectus, there were 35 commercial banks operating, or licensed to operate, in Saudi Arabia, of which 11 are incorporated in Saudi Arabia. A recent reduction in the number of commercial banks incorporated in Saudi Arabia is due to the merger of SABB and Alawwal Bank which was completed on 14 March 2021G and the merger of The National Commercial Bank and Samba Financial Group which was completed on 1 April 2021G, which is now known as The Saudi National Bank.

Of the remaining 24 operating, or licensed to operate, banks, six are branches of banks based in countries of the GCC other than Saudi Arabia (namely Emirates NBD, National Bank of Bahrain, National Bank of Kuwait, First Abu Dhabi Bank, Bank Muscat and Qatar National Bank), nine are international banks (namely JPMorgan Chase, BNP Paribas, Deutsche Bank, T.C. Ziraat Bankası, MUFG Bank Ltd A.Ş., National Bank of Pakistan, Industrial and Commercial Bank of China, Credit Suisse Bank and Standard Chartered Bank) and six have been licensed but are yet to commence operations under their licences (namely Trade Bank of Iraq, Bank of China Limited, Banque Misr, National Bank of Iraq, National Bank of Egypt and Sohar International Bank). STC Bank, Saudi Digital Bank and D360 Bank have been recently licensed as digital banks but are yet to commence operations under their licenses. 10 of the 11 Saudi operating banks are publicly-listed joint stock companies and their shares are traded on Tadawul (Gulf International Bank Saudi Arabia is not listed on Tadawul).

All 11 banks incorporated in Saudi Arabia provide a broad range of retail and wholesale banking products and services. Al Rajhi Bank, Bank Albilad, Bank AlJazira and Alinma Bank provide Shari'a-compliant products and services only. The remaining seven banks provide a combination of Shari'a-compliant and conventional banking products and services.

In addition to the commercial banks, there are a number of state-run credit institutions, including the Saudi Industrial Development Fund, the Real Estate Development Fund, the Saudi Arabian Agricultural Bank, the Saudi Development Fund, the Social Development Bank, the Islamic Development Fund and the Bank of Small and Medium Enterprises.

In addition, the PIF is the investment arm of the Government while the Islamic Development Bank is a multilateral development financing institution headquartered in Jeddah. On 15 June 2021G, the Council of Ministers issued a decision approving the merger of the GOSI and the Public Pension Agency ("**PPA**") and such merger is expected to boost investment returns and catapults the combined entity into the big league among pension funds and social welfare institutions. SAMA does not regulate any of these entities.

As of 31 December 2021G, there were 1,945 bank branches, 16,544 ATMs and 1,013,141 points of sale terminals in Saudi Arabia (source: SAMA December 2021G Monthly Statistics).

Key highlights of the trends and outlook for the Saudi banking industry are as follows:

- liquidity and funding is expected to remain solid against a backdrop of limited growth;
- a move towards digitisation with the rising sophistication and education of an increasingly young Saudi population, simultaneously driving demand for retail banking services in the Kingdom;
- fee-based services and products for retail markets are proliferating, the focus being turned to non-funded business volumes and cross-selling opportunities; and
- Islamic banking continues to be an area of growth.

HISTORY

Prior to 1976, a number of wholly foreign-owned banks operated branches and subsidiaries in Saudi Arabia.

In 1976, the Government issued a directive requiring all banks operating within its borders to convert to entities incorporated locally with at least 60 per cent. of the shares held by Saudi nationals.

In 2000G, the first branch of a foreign bank was authorised to open in Saudi Arabia in over 40 years, in connection with changes in GCC countries' policies concerning cross-border banking. The new entrant was Gulf Investment Bank ("**GIB**"), an offshore bank based in Bahrain and owned by the six GCC states. GIB had been active in Saudi Arabia for many years, but having a Saudi Arabian branch allowed it to compete at close hand. SAMA has since granted a number of banking licences to branches of foreign banks.

In May 2020G, GIB converted its branch into a locally incorporated bank jointly owned by the PIF and GIB.

There are also non-bank competitors in brokerage and personal finance. The Saudi banking sector has seen an accelerating competitive convergence focused on Islamic banking, private and affluent segments and brokerage and investment banking, as well as significant investment in new distribution, marketing and technology.

Following the licence granted to GIB in 2000G, SAMA granted licences to operate branches in Saudi Arabia to Emirates NBD, National Bank of Bahrain, National Bank of Kuwait, Muscat Bank, JPMorgan Chase, BNP Paribas, Deutsche Bank, National Bank of Pakistan, T.C. Ziraat Bankası A.S¸ Industrial and Commercial Bank of China and Qatar National Bank, First Abu Dhabi Bank, Mitsubishi UFJ Financial Bank and Standard Chartered Bank. The Government also developed the capital markets sector in Saudi Arabia with the enactment of the Capital Market Law which also established the Authority. In line with the Government's overall desire to develop and boost the capital markets in Saudi Arabia, the Authority has encouraged the participation of foreign investment banks. According to its website in September 2022G, the Authority has licensed at least 133 entities to conduct various types of securities business in Saudi Arabia, although a number of those licensed entities have not yet commenced business.

CORPORATE BANKING SEGMENT

The majority of commercial banking assets in Saudi Arabia are loans to businesses and, as at 31 December 2021G, commercial banks' claims on the private sector constituted SAR 2.03 trillion and approximately 62.1 per cent. of total commercial banks' assets (source: SAMA, December 2021G Monthly Statistics). This has been driven by the strong economic growth and the increased investment within Saudi Arabia in various sectors such as electricity, water and health services, building and construction, commercial and Government projects in oil and gas, infrastructure and education. Government stimulus to the Saudi economy has contributed to the growth in corporate assets.

Though commercial mortgages are a lucrative business in developed countries, Saudi banks have not been very active in this product due to legal and operational hurdles. However, financing is provided for real estate development purposes, which does not fall under commercial mortgages.

Investment banking activities have been growing rapidly in Saudi Arabia. Project finance has also been a strong growth area with several projects being financed in recent years. While the prevailing level of oil prices pose challenges to the Saudi economy, leading to both Government spending growth and weaker GDP growth, project finance is nonetheless expected to continue to be a strong area for banking business as a result of planned investments in infrastructure and industry in line with the reform and stabilisation programs being implemented to reduce the economy's dependency on oil-related revenues.

In August 2020G, Tadawul launched the new derivatives market as part of its strategy to diversify its product offering and provide more investment opportunities for market participants. Investors have been able to trade the Saudi Futures 30, based on the MSCI Tadawul 30 Index, since 30 August 2020G.

PERSONAL BANKING SEGMENT

Consumer lending increased by 9.5 per cent. from SAR 333 billion at the end of 2019G to SAR 365 billion at the end of 2020G and was SAR 428 billion as at the end of 2021G (source: SAMA, December 2021G Monthly Statistics). Historically, growth in consumer finance has been driven by several factors, including:

- economic growth coupled with favourable consumer demographics;
- growth of the credit card market;
- product innovation and a rapidly expanding range of product and service offerings; and
- the creation of SIMAH.

The value of the credit card loans market was SAR 19.5 billion as at 31 December 2021G, SAR 18.4 billion as at 31 December 2020G and SAR 19 billion as at 31 December 2019G (source: SAMA, December 2021G Monthly Statistics). The credit card loan market is expected to grow as a result of the increasing use of electronic forms of payment within Saudi Arabia.

The majority of personal lending is tied to electronic salary assignment, thereby enhancing asset quality and effectively reducing the risk associated with personal lending which, coupled with higher margins than in corporate lending, has made personal finance a particularly attractive segment for banks in Saudi Arabia.

THE SAUDI CREDIT BUREAU

SIMAH was established in 2002G and began operating in 2004G. In 2008G, the Council of Ministers issued a decision approving the Credit Information Law (issued pursuant to Royal Decree No. M/37 dated 5/7/1429H (corresponding to 8 July 2008G)), which sets out general principles and controls for the collection, exchange and protection of credit information of consumers. SIMAH, which is supervised by SAMA, was the first credit information company to be established in the Kingdom and offers consumer credit information services to its members in the Kingdom. SIMAH aggregates credit-related information among participating members to provide credit providers with credit risk information. In 2015G, SIMAH introduced a number of initiatives and projects to further its strategies to provide an effective information infrastructure to enhance the ability of assessing and managing risks. For example, SIMAH established an information centre developed to international specifications (Tier IV) and published a procedural manual as part of a "Know Your Rights" campaign to increase credit awareness among all segments of society. A number of SIMAH's projects were acknowledged by the G-20 based on an initiative of the Financial Stability Board (of which SAMA is a member), aimed at helping financial institutions to evaluate risks in a systematic and effective manner and put regulatory and operational requirements in place, and develop products and services, to ensure stability and efficiency of the financial sector.

ISLAMIC FINANCE

Islamic finance has been a growth area for the Saudi financial economy and has been one of the most significant developments in financial markets in recent years. Saudi Arabia is one of the largest and fastest growing markets for Islamic banking in the world.

The Islamic banking industry in Saudi Arabia encompasses a blend of institutions ranging from dedicated Islamic banks to conventional banks offering Islamic banking products and services through separate divisions or windows. Many banks in Saudi Arabia have Shari'a committees that provide independent opinions on the extent of compliance with Shari'a principles. Currently, a wide range of Shari'a-compliant products are available in the market for the corporate and personal banking segments covering credit, deposit, investment and treasury offerings.

The personal banking segment has experienced the strongest demand for Islamic banking products and services with consumer Islamic assets forming the bulk of total consumer assets. In addition to deposit products, Islamic financing solutions include personal finance, home finance and Islamic credit cards. With growing business activity in the real estate sector and a growing population, Shari'a-compliant home financing is expected to be a major driver of Islamic personal banking asset growth in the future.

Credit demand from the corporate banking segment is rapidly growing following the launch of infrastructure projects and increasing interest in manufacturing. Main product offerings include Ijarah and Murabaha and are offered as bilateral facilities, as well as through syndications. To cater to this market segment, Islamic banks have also introduced innovative Shari'a-compliant solutions. In recent years, there have been several large size Islamic project finance transactions attracting participation from a large number of banks. This has placed the Islamic banking sector in a competitive position vis-á-vis its conventional counterpart.

The Islamic banking segment is expected to continue to grow with credit demand anticipated from corporate and consumer segments (as for the conventional banking market, growth in Islamic banking may evolve at a slower pace in light of the current economic challenges caused by a prolonged period of low oil prices). It is also expected to be accompanied by a simultaneous increase in innovative Islamic product offerings and growing awareness and demand within the general public for sophisticated Shari'a-compliant solutions.

TREASURY

The treasury activities of Saudi Arabian banks have increased over the past few years as the financial markets have become more sophisticated with the increased use of financial instruments. Capable banks in Saudi Arabia are able to offer their customers structured products that make use of derivatives and that are also Shari'a-compliant.

INVESTMENT BANKING AND ASSET MANAGEMENT

Brokerage services activity flourished between 2003G and 2006G, when Tadawul peaked to all-time highs. The level of the Tadawul All Share Index was 8,389.23 at 31 December 2019G and 8,689.53 on 31 December 2020G and 11,281.71 on 31 December 2021G.

As a response to the Government's drive to develop an efficient capital markets platform, a number of banks, including the Bank, embarked on providing corporate finance and equity and debt capital markets advisory services to companies. Since 2003G, a number of initial public offerings have been effected, several of which were Government initiatives.

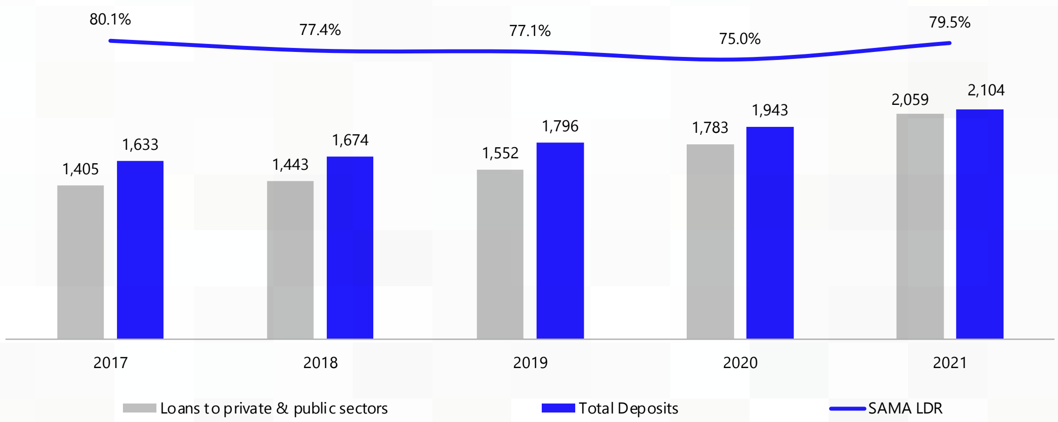
Furthermore, the Authority has issued licences to several financial institutions to engage as principal or as an agent in equity lead arrangements, equity management arrangements and/or advisory and securities custody services. Following this, a number of Saudi banks have established separate subsidiaries to undertake these activities. Foreign financial institutions have been permitted to buy and sell shares directly in companies listed on Tadawul since 2015G in accordance with the Rules for Qualified Financial Institutions Investment in Listed Securities.

Certain Saudi Arabian Banking Sector Metrics

Loans to deposit ratio

The chart below shows Saudi Arabian banking sector's loans to deposit ratio as well as its total loans and total deposits as at 31 December in each of 2017G, 2018G, 2019G, 2020G and 2021G.

SAMA LDR (%) & Bank Loans and Deposits (SARbn)



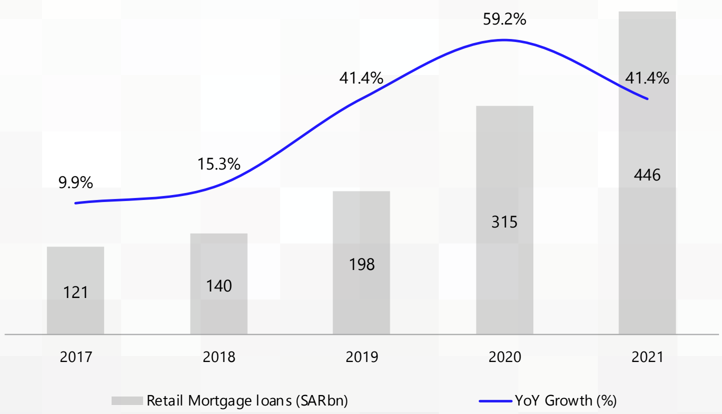
Source: SAMA monthly bulletins

The Saudi Arabian loan to deposit ratio has remained relatively stable since 2017G, with declines as at 31 December in each of 2019G, 2020G and 2021G reflecting faster growth in loans than in deposits and the increase as at 31 December 2021G reflecting a significantly greater increase in deposits than loans as the economy began to recover after the significant COVID-19 driven decline in 2020G.

Retail mortgages

The chart below shows Saudi Arabian retail mortgage loans as at 31 December in each of 2017G, 2018G, 2019G, 2020G and 2021G.

Retail Mortgage (SARbn)

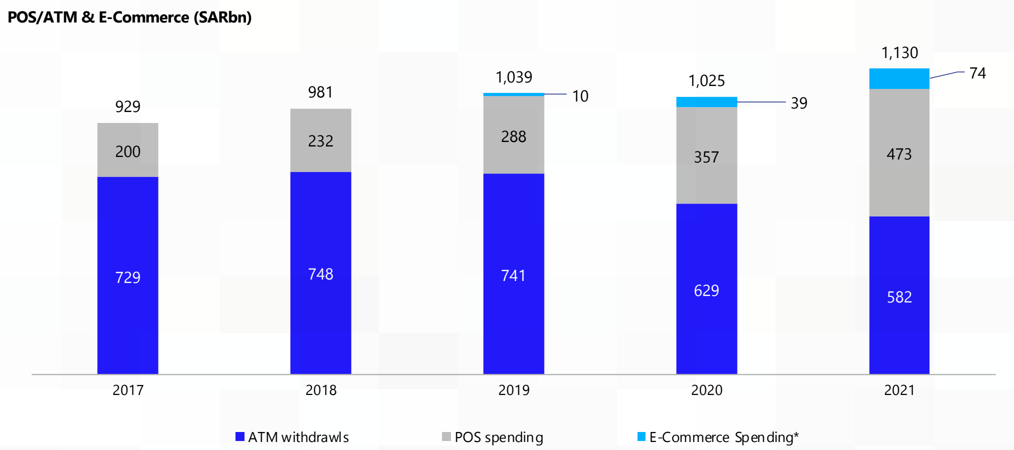


Source: SAMA monthly bulletins

The volume of Saudi Arabian retail mortgage loans has grown in each period since 2016G, with the fall in the rate of growth as at 31 December 2021G principally reflecting a maturing market.

POS/ATM and e-commerce statistics

The chart below shows the volume of withdrawals from Saudi Arabian ATMS, the spending through Saudi Arabian POS terminals and e-commerce spending in Saudi Arabia in each of 2017G, 2018G, 2019G, 2020G and 2021G.



Source: SAMA monthly bulletins

The growth in e-commerce spending and the fall in ATM withdrawals in each of 2020G and 2021G probably reflect the impact of the lock down measures to combat COVID-19 in 2020G and the digital transformation taking place in Saudi Arabia.

SAUDI CENTRAL BANK (PREVIOUSLY SAUDI ARABIAN MONETARY AUTHORITY)

Overview and Functions

SAMA is the regulator and supervisor of licensed financial institutions, including banks, finance companies, leasing and real estate companies, insurance companies, money exchange companies and credit information companies in Saudi Arabia.

SAMA was established pursuant to Royal Decree No. 30/4/1/1046 dated 25/07/1371H (corresponding to 20/04/1952G), and that Royal Decree was replaced by Royal Decree No. M/36 dated 11/4/1442H (corresponding to 26/11/2020G), which changed the name to Saudi Central Bank while maintaining the acronym SAMA. SAMA's principal functions include:

- issuing the national currency;
- dealing with the banking affairs of the Government;
- supervising commercial banks and exchange dealers;
- managing Saudi Arabia's foreign exchange reserves;
- carrying out the role of the Government's bank and advisor in monetary, banking, and financial matters;
- managing monetary policy for maintaining price and exchange rate stability;
- promoting the growth of the financial system and ensuring its soundness;
- supervising co-operative insurance companies and the self-employment professions relating to the insurance industry;
- supervising finance companies; and
- supervising credit information companies.

Banking Control Law

The Banking Control Law issued pursuant to Royal Decree No. M/5 dated 22/02/1386H (corresponding to 12/06/1966G) as amended by Royal Decree No. M/2 dated 05/01/1391H (corresponding to 3 March 1971), aims to protect banks, customers' deposits and shareholders and securing adequate liquidity levels. The law prohibits banks from undertaking certain activities that might cause damage to their shareholders and customers. In addition, the law prohibits individuals and companies from using the word "bank" or its synonyms in their names or conducting any banking activities without obtaining a licence from SAMA. The Banking Control Law sets out the framework within which banks must operate in Saudi Arabia and is supplemented by circulars, directives and guidelines issued by SAMA from time to time. These circulars and directives are generally not made publicly available outside the banking sector.

Consumer Protection

SAMA has been a strong advocate of consumer protection since obtaining its charter in 1952 and the issuance of the Banking Control Law in 1966. Consequently, SAMA has played an important role in ensuring that the financial institutions under its supervision deal with consumers fairly and honestly.

As Saudi Arabia's financial sector evolves and grows, SAMA continues to review these developments and decides on appropriate legislative, regulatory and organisational changes to provide the level of consumer protection expected from a country that is a member of the world's main economic and financial organisations.

SAMA's current objective is to ensure that all consumers who have dealings with licensed financial institutions in Saudi Arabia receive the expected level of consumer protection, including fair treatment, honesty and ease of access to financial products and services.

SAMA has set out the conduct expected from such financial institutions through various regulations, policies and issued instructions, including the "**Banking Consumer Protection Principles**" (the "**Principles**") issued in June 2013G which are based on the General Principles for Financial Consumer Protection developed by the Organisation for Economic Co-operation and Development (the "**OECD**") in 2011G.

The Principles set out key guidelines to enable licensed banking institutions to deliver the required level of fair treatment, honesty and financial inclusion thereby meeting SAMA's strategic objective for financial consumer protection in Saudi Arabia. The Principles apply to the activities of banks operating by way of a licence, which are under the supervision of SAMA and which are dealing with persons who are, or may become, consumers. They also apply to the activities of any third party engaged by licensed banking institutions to undertake any outsourced activities. The Principles are binding on all licensed banking institutions, complementary to the instructions and internal regulations issued by any licensed banking institution and applicable to all transactions that are made with individual consumers.

The Principles were issued pursuant to powers granted to SAMA under the following legislation and regulations:

- Charter of the Saudi Arabian Monetary Authority – Article (3d), issued by Royal Decree No. 23 dated 23/05/1377H (corresponding to 15/12/1957G), as replaced by the Law of the Saudi Central Bank – Article (4.3), issued by Royal Decree No. M/36 dated 11/04/1442H (corresponding to 26/11/2020G);

- Banking Control Law issued by Royal Decree No. M/5 dated 22/02/1386H (corresponding to 12/06/1966G); and

- Ministerial Decree No.3/2149 dated 14/10/1406H (corresponding to 22/06/1986G).

- The "**G20 High-Level Principles on Financial Consumer Protection**" provide the background for the "**General Principles for Financial Consumer protection**" which are now being adopted as part of the Principles.

The Principles are further underpinned by the Responsible Lending Principles for Individual Consumers (issued by SAMA under Circular No. 46538/99 dated 17 May 2018G, as amended by SAMA's Circular No. 40694/1 dated 24 May 2018G) which aim to:

(i) encourage responsible lending that meets the actual needs of consumers, especially those related to owning housing and assets rather than consumer purposes;

(ii) enhance financial inclusion by providing adequate financing for all segments of society, taking into account reasonable deductible ratios that the consumer can afford; and

(iii) focus on ensuring fairness and competitiveness among creditors to make sure that their procedures and mechanisms are effective and efficient.

The Responsible Lending Principles for Individual Consumers apply to all creditors and finance activities directed at consumers, encompassing all credit products and programmes designed for individuals, including, among others, personal finance, vehicle finance, credit cards and real estate finance.

In April 2018G, SAMA issued the Debt Collection Regulations and Procedures for Individual Consumers applying to banks and finance companies under SAMA's supervision which set out debt collection procedures in relation to consumers, procedures for dealing with defaulting retail consumers as well as controls governing the communication with retail consumers and their guarantors in order to enable creditors to follow clear and specific procedures while protecting the rights of all relevant parties.
Further consumer protection legislation which supplements the Principles issued by SAMA (the Regulations for Issuance and Operations of Credit and Charge Cards) relates to the issuance and operation of credit and charge cards issued by banks, finance companies and other card issuers supervised by SAMA.

The consumer protection legislation has also been extended to cover finance companies pursuant to the Regulations for Consumer Finance (the "**RCF**"). The RCF contain a number of provisions relating to the protection of consumer rights, including:

- allowing customers to partially or fully repay their remaining finance facilities at any time during the relevant financing period;
- unifying management fees across all banks in Saudi Arabia;
- providing customers with summaries of their financings, which include basic details of the financing and also reference key provisions of the financing;
- prescribing rules and standards in relation to how banks deal with customers; and
- emphasising the principles of transparency and disclosure in consumer finance contracts.

The RCF aim to ensure that consumer finance contracts have enhanced levels of disclosure and transparency and to enable customers to be better informed of their rights and obligations under their financings. Pursuant to the RCF, consumer finance contracts should set out, among other things:

- details of the financing, including the total cost of the financing;
- the calculation method for determining profit;
- all charges, commission and administration fees;
- the consequences of delays in payment of instalments; and
- the procedure for exercising a customer's right of withdrawal, early settlement or termination.

Additionally, SAMA has published consumer protection regulations applying to insurance (the Insurance Consumer Protection Principles) as well as numerous circulars supplementing and detailing the various consumer protection regulations described above.

In order to deal with consumer complaints and monitor the performance and adherence of financial institutions to the Principles, SAMA has also established a dedicated Consumer Protection Department.

Real Estate Financing and Finance Leasing

In August 2012G, the Saudi Council of Ministers issued a package of legislation approved by Royal Decrees in relation to the finance industry, including real estate financing (the "**Real Estate Finance Law**"), leasing (the "**Finance Lease Law**") and supervision of financial companies (the "**Financial Companies Control Law**"), in each case, as further described below. In February 2013G, SAMA issued the implementing regulations of these laws.

Real Estate Finance Law

This law provides the regulatory architecture for the authorisation and licensing of banks and finance companies to enter the real estate market. In particular:

- banks may own real estate for the purposes of real estate finance – a key feature of Islamic financing products;
- the Government publicises real estate market activity and financiers are granted access to courts and notary registers; and
- a credit check must be conducted against borrowers through one of the authorised credit bureaus.

The Implementing Regulations of the Real Estate Finance Law define the role of finance companies, set out the requirements for entering into and registering a real estate finance lease, set out the SAMA's requirements for licensing re-finance companies and set out the rules governing the activities of re-finance companies. In June 2020G, SAMA issued guidelines on the provision of real-estate financing products to individuals. These guidelines set out the minimum requirements on financiers providing real-estate financing products to individuals.

Finance Lease Law

This law prescribes the rules relating to finance leasing and specifically states that:

- the responsibilities of the lessor and lessee must be carried out in a Shari'a-compliant manner (placing asset risk on the lessor during the lease term but making the lessee responsible for the relevant use);
- the transfer of leased assets is permitted to the lessee upon maturity of the lease term; and
- the lessor is permitted to request payments of future rentals if the lessee is in payment default, provided the number of such payments is not greater than the number of late payments.

The Implementing Regulations of the Financial Lease Law set out the rights and obligations of the lessor and lessee in a finance lease, outline rules relating to assignment of rights, instalment payments and ownership rights of the relevant parties and specify the requirements for establishing a company that registers finance leases and the requirements for such companies to register finance leases.

Financial Companies Control Law

This law provides a regulatory and supervisory framework for Shari'a-compliant finance companies to provide SAMA approved forms of financing, including real estate financing.
The Implementing Regulations of the Financial Companies Control Law set out SAMA's rules and requirements for licensing finance companies and contain corporate governance requirements, internal auditing requirements and other rules which the finance companies must comply with in order to maintain their licence.

CAPITAL MARKET AUTHORITY

The Authority was established by the Capital Market Law, issued by Royal Decree No. (M/30) dated 2/6/ 1424H (corresponding to 31/7/2003G) as amended by Royal Decree No. (M/16) dated 19/1/1441H (corresponding to 18 September 2019G) (the "**CML**"). The Authority is a governmental organisation with financial, legal and administrative independence.

The Authority regulates Saudi Arabia's capital markets. It issues the required rules and regulations for the implementation of the provisions of the CML aimed at creating an appropriate investment environment. Some of the Authority's major objectives are to:

- regulate and develop the capital market;
- protect investors and the general public from unfair and unsound practices involving fraud, deceit, cheating, manipulation and insider trading;
- achieve fairness, efficiency and transparency in securities transactions;
- develop measures to reduce the risks pertaining to securities transactions;
- develop, regulate and monitor the issuance of, and trading in, securities;
- regulate and monitor the activities of entities subject to the control of the Authority;
- regulate and monitor full disclosure of information related to securities and their issuers; and
- regulate proxy and purchase requests and public share offerings.

In addition, pursuant to the CML, the Authority has formed the Committee for the Resolution of Securities Disputes and the Council of Ministers has, also pursuant to the CML, formed the Appeal Committee for the Resolution of Securities Disputes. Both of these committees are quasi-judicial bodies authorised to adjudicate disputes and violations in respect of the CML and the rules and regulations of the Authority, including the Tadawul.

In 2016G, the Financial Leadership Programme 2020G (the "**Programme**") was launched, under which a set of initiatives on the Financial Sector Development Programme (i.e. one of the Kingdom's 2030 vision executive programmes) were enacted, including achieving the strategic objectives and initiatives of the second strategic pillar with respect to developing an advanced capital market.

Through the Programme, the Authority seeks to position the Saudi capital market as the main market in the Middle East and one of the leading financial markets in the world, while being an advanced market and attractive to both domestic and foreign investment, enabling it to play a pivotal role in developing the economy and diversifying its sources of income. The Programme consists of four main pillars, as follows:

- facilitating funding: deepening the capital markets and promoting its role in raising capital;
- encouraging investment: supporting the growth of asset management and promoting institutional investment;
- promoting confidence: reinforcing the capital markets' regulatory structure; and
- building capacities: supporting the development of market participants.

The Programme also has a focus on developing a regulatory environment for the Kingdom's financial markets to ensure investor protection, as well as enhancing adherence to international standards.

The Authority intends to increase the number of listed companies in both the main and junior parallel markets to more than 250 companies as well as doubling the invested capital through managed channels to reach SAR 650 billion of assets under management.

In accordance with the Authority's objective of developing market-leading international best practices and with a view to collaborating with other similar institutions internationally, the Authority is an active participant in the International Organisation of Securities Commissions which is recognised as the leader in setting the standards for securities and capital markets sectors globally. In addition, the Authority is also a participant in the Ministerial Committee of the Chairpersons of GCC Capital Markets Regulators as well as the Union of Arab Securities Authorities.

FORMATION OF THE SAUDI EXCHANGE COMPANY (TADAWUL)

In the early 1980Gs, the Government embarked on forming a regulated market for trading. In 1984G, a Ministerial Committee composed of the Ministry of Finance and National Economy, the Ministry of Commerce and SAMA was formed to regulate and develop the market. SAMA was the government body charged with regulating and monitoring market activities until the establishment of the Authority in July 2003G. As the sole regulator and supervisor of the capital markets, the Authority issues the required rules and regulations to protect investors and ensure fairness and efficiency in the market.

On 19 March 2007G, the Saudi Council of Ministers approved the formation of The Saudi Stock Exchange (Tadawul) Company as a joint stock company in accordance with Article 20 of the CML.

On 7 April 2021G, The Saudi Stock Exchange (Tadawul) Company announced its transformation into a group structure whereby The Saudi Tadawul Group will become the parent company with a portfolio of four subsidiaries including the Saudi Exchange Company – Tadawul, which is also known as the Saudi Exchange.

MANAGEMENT OF LIQUIDITY AND CREDIT RISK

Under the Banking Control Law, a bank's deposit liabilities must not exceed 15 times its reserves and paid-up share capital or invested capital. The current percentage specified by SAMA for a statutory deposit is 7 per cent. of total customers' demand deposits and 4 per cent. of balances due to banks and other financial institutions (excluding balances due to SAMA and non-resident foreign currency deposits), savings, time deposits and margins on letters of credit and guarantees (excluding all types of repo deposits).

In addition to the statutory deposit, each bank in Saudi Arabia is also required to maintain a liquid reserve of at least 20 per cent. of its total deposit liabilities. The liquid reserve must comprise cash, gold or assets which can be converted into cash within a period not exceeding 30 days in order to comply with the requirements of the Banking Control Law.

Previously, the Banking Control Law set a maximum limit on the amount of financial liability that a bank may incur in respect of any one person. This was replaced by the SAMA Rules on Large Exposures of Banks on the latest SAMA circular in August 2019G.

Under this rule, a bank may not grant a loan, extend a credit facility, give a guarantee or incur any other financial liability in respect of any one person in an aggregate amount exceeding:

- in the case of banks, 25 per cent. of its total eligible capital;
- in the case of companies, 15 per cent. of its total eligible capital; and
- in the case of individuals, 5 per cent. of its total eligible capital.

SAMA also has the power to regulate the liquidity and credit risk of a bank by restricting, among other things, the maximum amount of money which may be loaned by a bank, the level of a bank's exposure to a single customer and the categories of loans which a bank can make. These restrictions may vary from bank to bank depending on the relevant circumstances and are in addition to the statutory deposit and liquid reserve requirements provided for in the Banking Control Law.

SAMA carries out a full review of the operations of each bank every three years and more regular assessments of specific functions within each institution. SAMA has also intervened to support banks that have found themselves in difficulties. Similarly, it allowed distressed banks to benefit from low cost funding in the 1980Gs.

Over the years, SAMA has developed a reputation as a strict regulator. In 1989G, SAMA introduced accounting and disclosure standards for commercial banks in Saudi Arabia, which essentially comply with IFRS. All banks in Saudi Arabia are now in compliance with IFRS that are endorsed in the Kingdom and other the Accounting Standards for Commercial Banks issued by SAMA. The banks also prepare their financial statements to comply with the Banking Control Law and the Companies Law.

REPORTING REQUIREMENTS

Banks are required to submit monthly statements of the consolidated financial position of their domestic and foreign branches.

Banks also have to submit quarterly, semi-annual and annual reports to SAMA. These reports are comprehensive and deal with matters such as the maturity schedule of credit facilities, risk concentrations, large exposures, foreign exchange exposure, analysis of specific loan loss reserves and a calculation of the relevant bank's risk asset based capital adequacy.

Banks are required to submit their audited consolidated annual financial statements to SAMA within six months of each financial year end and listed banks are required to report within three months in accordance with the Rules on the Offer of Securities and Continuing Obligations. Annual consolidated financial statements have to be audited by two independent joint auditors. The published audited consolidated financial statements of Saudi banks are required to be compliant with IFRS as modified by SAMA for the accounting of zakat and income taxes, which requires adoption of all IFRS as issued by the International Accounting Standards Board (IASB) except for the application of International Accounting Standard (IAS) 12, "**Income Taxes**" and IFRIC 21, "**Levies**" so far as these relate to zakat and income tax. As per the SAMA Circular No. 381000074519 dated 11 April 2017G and subsequent amendments relating to the accounting for zakat and income tax, the zakat and income tax are to be accrued on a quarterly basis through shareholders' equity under retained earnings. The consolidated financial statements are also required to comply with the Banking Control Law and the Companies Law.

Listed joint stock companies have to publish quarterly financial statements as their stocks are listed on Tadawul. However, quarterly financial statements are reviewed by the auditors in accordance with the International Standard on Review Engagements 2410 "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*" are limited in terms of the scope of procedures performed.

Since SAMA introduced mandatory disclosure standards, there has been an improvement in the level of disclosure by banks in the Kingdom, which now publish a breakdown of loans by sector and geography, in addition to loans to the Government and related parties. Banks also report doubtful loans, loan loss reserves and write-offs.

ANTI-MONEY LAUNDERING AND COUNTER-TERRORIST FINANCING

Saudi Arabia is a signatory to, and has implemented measures required by, the 1988G United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, the International Convention for the Suppression of the Financing of Terrorism and various other international conventions and agreements relating to money laundering and terrorist financing. In June 2019G, Saudi Arabia was the first Arab country to join the Financial Action Task Force (the "**FATF**"). On a regional level, Saudi Arabia is a founding member of the Middle East and North Africa Financial Action Task Force (the "**MENA-FATF**") which was created in 2004G.

Money laundering is considered an offence under Shari'a law. Over the past 10 years, Saudi Arabia has put into place a relatively comprehensive legislative and regulatory framework that deals with money laundering and terrorist financing. Saudi Arabia implemented its first customer identification procedure in 1975.

Saudi Arabia has comprehensive rules covering KYC, AML and counter-terrorist financing.

Saudi Arabia has comprehensive rules covering KYC, AML and counter-terrorist financing requirements for the banking sector. In April 2003G, SAMA issued updated Rules Governing the Opening of Bank Accounts and General Operational Guidelines (SAMA No. 3222/BCI/60: dated 8 April 2003G) (the "**Account Opening Rules**"). These rules contain comprehensive requirements governing customer identification, the opening and maintenance of bank accounts, the transmission of funds and the deposit of cash and also contain detailed rules controlling the operation of bank accounts for charitable and welfare organisations. In 2008G, SAMA revised the Account Opening Rules by adding additional requirements and providing guidelines on dealing with non-resident individuals, entities and multi-lateral organisations. A fifth update of these rules was issued during 2020G in which, among other changes, SAMA made certain additions to the list of specified legal entities subject to KYC requirements and account operating controls and increased the KYC required information for corporate clients to identify their beneficial owners.

Saudi Arabia's existing AML regime was overhauled by SAMA in May 2003G with its issue of Rules Governing Anti-Money Laundering and Combating Terrorist Financing (SAMA No. BCI/122: dated 27 May 2003G) (the "**AML/CTF Rules**"). The AML/CTF Rules govern, among other things, the reporting of suspicious transactions, transaction monitoring, customer and transaction profiling, risk assessment, control systems, compliance programmes, reviews and audits, KYC policies and standards and record retention. Since 2003G, the AML/CTF Rules have subsequently been were updated in line with SAMA's continued efforts to further improve and refine the AML/CTF Rules and cope with the local, regional and global developments.

In August 2003G, Saudi Arabia updated its existing AML statutes with the enactment of the Anti-Money Laundering Law (pursuant to Royal Decree No. M/39 dated 24 August 2003G) and its implementing regulations (the "**AML Law**"), providing an up-to-date statutory basis for money laundering and terrorist financing offences. A Financial Intelligence Unit was also established, enabling a greater international exchange of financial information in cases of suspected money laundering and terrorist financing amongst law enforcement agencies and regulators.

In November 2005G, SAMA issued a circular (SAMA No. 35185/MAT/539: dated 22 November 2005G) requiring all banks and financial institutions operating in Saudi Arabia to strictly comply with the provisions of the AML Law. The Capital Market Institutions Regulations issued by the Board of the Authority pursuant to its Resolution number 1-83-2005, dated 21/05/1426H (corresponding to 28/6/2005G), as amended also require entities undertaking securities business to comply with the AML Law.

In December 2008G, the Board of the Authority issued the Anti-Money Laundering and Counter-Terrorist Financing Rules pursuant to its Resolution Number 1-39-2008, dated 03/12/1429H (corresponding to 01/12/2008G), as amended. The first update of the Anti-Money Laundering and Counter-Terrorist Financing Rules was issued in February 2012G.

In April 2012G, Saudi Arabia updated its existing AML Law and Implementing Rules (pursuant to Royal Decree No. M/31 dated 11/05/1433H (corresponding to 03/042013G)), SAMA issued a circular (SAMA No. 34100074807MAT, dated 15/06/1434H) requiring all banks and financial institutions operating in Saudi Arabia to strictly comply with the updated AML Law and Implementing Rules.

In October 2017G, the existing AML Law and Implementing Rules were replaced by the new AML Law and Implementing Rules issued pursuant to Royal Decree No. M/20 dated 05/02/1439H (corresponding to 25/10/2017G).

In September 2018G, the FATF and the MENA-FATF jointly conducted an assessment of Saudi Arabia's anti-money laundering and counter-terrorism financing system The key findings, priority actions and recommendations for Saudi Arabia's AML/CFT regime of this assessment were discussed in June 2018G in the joint plenary meeting of the MENA-FATF in Paris. The assessment report of Saudi Arabia can be found on the websites of MENA-FATF and FATF. In January 2020G, a follow-on report was published analysing Saudi Arabia's progress in addressing the technical compliance deficiencies that were identified in the 2018G mutual evaluation report issued by the FATF and the MENA-FATF. The report found that Saudi Arabia has made some progress in addressing the technical compliance deficiencies previously identified but will remain in enhanced follow-up and continue to report back to the FATF on the progress made to strengthen its implementation of AML and CTF measures.

In August 2020G, SAMA issued guidelines to combat financial fraud in banks operating in Saudi Arabia, aiming to institutionally tackle fraud, bribery and corruption by mandating all banks operating in Saudi Arabia to implement and comply with specified controls as minimum standards.

In April 2021G, the Kingdom issued the Law on Combating Financial Fraud and Deceit, which sets out certain penalties (including fines and imprisonment) for fraudulent and deceitful activities. The Kingdom's public prosecution body has authority to institute lawsuits in relation to acts that constitute a violation of this law.

INDEPENDENT AUDITORS

As a measure of prudence, SAMA requires all banks in Saudi Arabia to be audited jointly by two independent auditors.

FINANCIAL REQUIREMENTS

SAMA has introduced regulations to ensure that banks do not have disproportionate concentrations of risk in any one sector or client and that sufficient liquidity and capitalisation is maintained to support bank activities.

The most significant regulations are summarised below:

Doubtful and Past Due Loans/Loan Loss Reserves

In 2004G, SAMA issued regulations regarding the classification of assets, as well as provisioning norms. The table below shows the classifications and the reserves required for prudential regulation purposes:

Classification	Defined as	Reserve requirement
Current	No problems	1 per cent. of outstanding
1. (special mention)	Potential weakness	1 per cent. of outstanding
2. (substandard)	Inadequate capacity to pay and/or profit or principal overdue by more than 90 days	25 per cent. of outstanding
3. (doubtful)	Full collection questionable and/or overdue by more than 180 days	50 per cent. of outstanding
4. (loss)	Uncollectible and/or overdue by more than 360 days	100 per cent. of outstanding

With effect from 1 January 2018G, all Saudi banks have adopted IFRS 9 "**Financial Instruments**". Among other things, IFRS 9 provides a new model for the calculation of impairment provisions which are recognised based on a forward-looking "**Expected Credit Loss**" model. The impairment assessment is based on forward-looking elements, including an economic forecast covering key macroeconomic factors such as unemployment, GDP growth, inflation, special commission rates and other market related variables, obtained through internal and external sources.

Liquidity

Banks in the Kingdom are required to maintain liquid assets of at least 20 per cent. of deposit liabilities. For the purposes of this calculation, cash, gold, treasury bills, government bonds, up to one month placements and any asset that can be liquidated within 30 days are included. The breakdown of call deposits, savings accounts and time deposits must also be shown on the balance sheet. The maturity of assets and liabilities has to be disclosed to determine the sensitivity to commission rate risk.

Capital Adequacy

The GCC has introduced a common standard for capital adequacy based on BIS capital adequacy standards. The GCC standard applicable in Saudi Arabia recommends a minimum 8 per cent. ratio of capital to risk weighted assets, including off-balance sheet risk. Assets are categorised into four risk groups carrying varying risk weights according to the risk assessment of the counterparty. There are also two levels of country risk, one for the GCC and member countries of the OECD and others that have special lending arrangements with the IMF under its general agreement to borrow, considered a preferred risk. All other countries are considered full risk. In contrast, BIS only counts Saudi Arabia risk and not all of the GCC at par with the OECD. The other major difference is that the GCC standards account for mortgage loans as 100 per cent. risk as opposed to 50 per cent. under BIS standards.

Deposit liabilities of banks are limited to 15 times capital and reserves. In cases where this ratio is exceeded, banks have to place interest free deposits of half the excess amount with SAMA. Furthermore, 25 per cent. of net profits (after deduction of Zakat liabilities) have to be transferred to statutory reserves until the reserve balance equals paid-up capital.
SAMA has successfully implemented the Basel Committee on Banking Supervision rules and standards in their entirety, on a timely basis and in a prudent and conservative manner. As a result of such implementation, the Kingdom's banking sector has reported among the strongest capital adequacy ratios, leverage ratios and liquidity ratios in the GCC and the MENA region.

BASEL III FRAMEWORK

In response to the global financial crisis which commenced in 2007G, the Basel Committee enhanced its capital measurement and capital standards by issuing the Basel III Framework. The Basel III Framework focuses on strengthening the quality of regulatory capital, raising the minimum capital requirements, enhancing risk coverage and reducing cyclicality of regulatory capital. It introduces new leverage and liquidity ratio requirements and capital buffers to promote the build-up of capital. These enhancements were implemented by means of a staggered approach up to 2019G. On 7 December 2017G, the Basel Committee published its recommendations named Basel III: Finalising post-crisis reforms (informally referred to as "**Basel IV**"). The reforms contain new requirements for credit risk, operational risk, CVA risk and a so called output floor which sets new minimum standards for capital requirements in financial institutions using advanced models for calculating capital requirements. On 27 March 2020G, as a result of the COVID-19 outbreak, the Basel Committee released a statement deferring the implementation timeline of Basel IV by one year.

SAMA has introduced the main elements of the Basel III Framework including the leverage ratio, the liquidity coverage ratio, the net stable funding ratio and the capital adequacy ratio framework as well as the sound management and operational risk guidelines, the standardised approach for measuring counterparty credit risk exposure and capital requirements for bank exposures to central counterparties.

The Basel III Framework requires banks' exposures to be backed by a high quality capital base. To this end, the predominant form of Tier 1 capital must be common shares and retained earnings. The Basel Committee principles adopted by SAMA ensure that banks hold high quality Tier 1 capital that represents "**Pure Capital**" which is highly "**Loss Absorbent**" through the following measures:

- deductions from capital and prudential filters to be generally applied at the level of common equity or its equivalent;
- subordinated debt of high quality;
- fully discretionary non-cumulative dividends or coupons;
- neither a maturity date nor an incentive to redeem;
- innovative hybrid capital instruments with an incentive to redeem through features such as step-up clauses, currently limited to 15 per cent. of the Tier 1 capital base, will be phased out;
- Tier 3 capital instruments to cover market risks are eliminated; and
- to improve market discipline, the transparency of the capital base will be improved, with all elements of capital required to be disclosed along with a detailed reconciliation to the reported accounts.

Following the implementation of Basel III standards related to capital, the minimum requirements for regulatory capital, excluding capital buffers, in the Kingdom are:

- common equity Tier 1 must be at least 4.5 per cent. of risk-weighted assets at all times;
- Tier 1 Capital must be at least 6.0 per cent. of risk-weighted assets at all times; and
- Total Capital (Tier 1 Capital plus Tier 2 Capital) must be at least 8.0 per cent. of risk-weighted assets at all times.

TREATMENT OF SYSTEMICALLY IMPORTANT FINANCIAL INSTITUTIONS LAW

The SIFI Law relates to the treatment of systemically important financial institutions. As at the date of this Base Prospectus, the implementing regulations to the SIFI Law which will contain detailed provisions have not yet been issued. Therefore, there is a current uncertainty as to the exact scope and effect of the SIFI Law and whether and to what extent it will apply to the Bank in the future. The SIFI Law gives the relevant regulator the authority to determine, from time to time, whether a financial institution should be deemed to be systematically important. As at the date of this Base Prospectus, the Bank has not been deemed to be a systematically important financial institution by the relevant regulatory.

Among other things, the SIFI Law provides that:

- the management of the relevant financial institution shall be required to notify SAMA when the financial institution is distressed or likely to become distressed;

- within 180 days of being requested by SAMA, the relevant financial institutions shall submit, for review by SAMA, a recovery plan detailing the steps and procedures to be taken for the restoration of the financial institution's financial position;

- any application for bankruptcy procedures in respect of the relevant financial institution is subject to approval by SAMA, such that SAMA may instead, commence a Treatment Plan (as defined below);

- subject to the Treatment Conditions (as defined below) being met, SAMA may prepare a treatment plan (a Treatment Plan) for the relevant financial institution group which, subject to review and input from the financial institution, and subject to approval by the Council of Economic and Development Affairs, may provide for:

  (a) the sale of all or part of the shares, stocks, assets and/or liabilities of the financial institution to a third party;

  (b) incorporation of a bridge institution, to which all or part of the shares, stocks, assets and/or liabilities of the financial institution or bridge institution are transferred;

  (c) establishment of an asset management institution to whom the assets or liabilities of the financial institution are transferred; and/or

  (d) an amendment of the rights of creditors and/or holders of capital instruments of the financial institution, including, without limitation, the reduction, cancellation or conversion thereof.

The SIFI Law also provides that in implementing the relevant Treatment Plan, shareholders and creditors shall not receive less, or shall not incur greater losses, than what is estimated would have been received or lost, had the relevant financial institution been wound up at the time of the Treatment Plan.

The "**Treatment Conditions**" are:

- The financial institution is in distress (as further explained below), or is likely to become in distressed in a way that affects its continuity and ability to fulfil its obligations.
- The financial institution is unable to fulfil its obligations, affecting its ability to continue in due course, if a treatment plan is not undertaken.
- The treatment plan achieves any of the objectives of the SIFI Law.
- Implementing a treatment plan for the financial institution is better than it being wound-up.

Pursuant to the SIFI Law, in this context, '**distress**' includes:

- a lack of financial and administrative resources necessary to achieve the requirements of financial adequacy, liquidity, risk management or institution management in general, and to meet the continuing obligations of licensing which, if not met, justify licensing revocation;
- where the value of the financial institution's assets fall below, or is expected to fall below the value of its liabilities in near future;
- where the financial institution is unable, or is expected to become unable to pay its debts when due; and
- a need for exceptional government support.

SAMA SUPPORT PROGRAMME AND INITIATIVES

As part of SAMA's role in activating monetary policy tools and preserving financial stability, as well as in support of the Government's efforts to mitigate the expected financial and economic effects on the private sector as a result of the COVID-19 pandemic, SAMA has injected over SAR 50 billion as at June 2021G into the banking sector to enhance banking liquidity and enable banks to continue providing credit facilities for the private sector. Through this support measure, SAMA intends to help banks revise or restructure their private sector loans with no additional charges, support plans to maintain employment levels in the private sector and provide certain e-banking services for free.

SAMA's programme aims at supporting and enabling the private sector to promote economic growth through a package of measures as set out below.

Supporting MSMEs Finance

The purpose of the programme is to mitigate the impacts of precautionary coronavirus measures on the MSME sector, specifically by reducing the burden of cash flow fluctuations, supporting working capital, enabling the sector to grow, and contributing to supporting economic growth, and maintaining employment. The programme consists of three basic elements as follows:

Deferred Payments Programme

Depositing approximately SAR 50 billion for banks and financing companies to delay the payment of the dues of the financial sector (banks and finance companies) from MSMEs for a period of six months as of the relevant due dates. Since its launch, this programme assisted over 107,000 contracts with a total value of SAR 174 billion and the injection was increased from the original allocation of SAR 30 billion due to demand. On 3 October 2021G, SAMA announced that this programme was extended until 31 December 2021G and on 31 December 2021G it was extended for a further three months to 31 March 2022G. The programme ended on 31 March 2022G.

Guaranteed Facility Programme

Providing concessional finance of approximately SAR 1.1 billion for MSMEs by granting loans from banks and finance companies to the MSME sector to support business continuity and sector growth in a way that contributes to supporting economic growth and maintaining employment levels in these enterprises. Since its launch, the number of relevant financing contracts totalled more than 1,100. The programme was extended until 14 March 2022G.

Loan Guarantee Programme

Depositing an amount of SAR 22.8 million (as at June 2020G) to enable banks and insurance companies to relieve MSMEs from the finance costs of the Government's Kafalah loan guarantee programme for the purpose of minimising finance costs for eligible entities during 2020G and to support finance expansion. Since its launch, the number of relevant financing contracts totalled more than 2,000.

On 7 March 2021G, SAMA announced the extension of the loan guarantee financing programme for an additional year until 14 March 2022G. The aim of the extension is to strengthen SAMA's contribution to support MSMEs and ease the effects of the pandemic. The extension period ended on 14 March 2022G.

Supporting Fees of POS and E-Commerce

From March 2020G, this was accomplished via supporting payment fees of all stores and entities in the private sector for a period of six months SAMA paid these fees to payment service providers participating in the national system. SAMA stated that, since its launch in mid-March to the end of June 2020G, the number of stores which benefited from this programme amounted to 130,000 merchants with POS and 3,600 e-commerce stores. The number of transactions exempted from fees reached 248 million for POS and 25 million for e-commerce. The value of these transactions exceeded SAR 36 billion for POS and SAR 5 billion for e-commerce. The amount of fees supported by SAMA totalled SAR 327 million.

Supporting institutions affected by the precautionary measures

As regards institutions affected by the precautionary measures implemented in the cities of Makah and Medina, SAMA is now co-ordinating with banks and finance companies to facilitate finance repayments of such institutions.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE GROUP'S FINANCIAL POSITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the Group's financial position and results of operations should read in conjunction with the information set out in "Presentation of Financial and Other Information", "Summary of Financial Information" and the Financial Statements incorporated by reference in this Base Prospectus.

This discussion and analysis of the Group's financial position and results of operations is based upon the Financial Statements, which have been prepared in accordance with IFRS-KSA as endorsed in Saudi Arabia. This discussion contains forward-looking statements that involve risks and uncertainties. The Group's actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Base Prospectus, particularly under the headings "Forward-looking statements" and "Risk factors".

The data as of and for the six-month period ended 30 June 2022G has been extracted from the unaudited Interim Financial Statements prepared in accordance with IAS-34, as endorsed in Saudi Arabia. The data as of and for the year ended 31 December 2021G has been extracted from the comparative column of the audited 2021G Financial Statements prepared in accordance with IFRS-KSA. The data as of and for the year ended 31 December 2020G has been extracted from the audited 2020G Financial Statements prepared in accordance with IFRS-KSA. The data as of and for the year ended 31 December 2019G has been extracted from the comparative column of the audited 2020G Financial Statements prepared in accordance with IFRS-KSA.

See "Financial and Statistical Information" for a further discussion of the source of the numbers presented in this section and certain other relevant information. In particular, that section explains that all financial information as at and for the six months ended 30 June 2022G and 30 June 2021G in this section is unaudited. Investors should not rely on interim results as being indicative of the results the Group may achieve for the full year.

OVERVIEW

The Bank is a joint-stock company established under commercial registration No. 1010000096, formed pursuant to Royal Decree No. M/59 dated 3/11/1407H (corresponding to 29/06/1987G) and in accordance with Article 6 of the Council of Ministers' Resolution No. 245, dated 26/10/1407H (corresponding to 23/06/1987). The Company's head office is located at 8467 King Fahd Road, Al Muruj District, Riyadh 12263 – 2743, Kingdom of Saudi Arabia. The Bank's current capital is SAR 40,000.0 million, comprising 4,000 million shares of SAR 10 each. The Bank's main activities involve carrying out banking and investment activities for its own account and on behalf of others inside and outside of the Kingdom through its network of branches and subsidiaries.

The Bank is the world's largest Islamic bank in terms of both assets and market capitalisation as at 8 September 2022G. The Bank only offers Islamic products and services. As at 30 June 2022G, the Bank operated through 515 branches, 4,824 ATMs, 404,173 POS terminals and 199 remittance centres. As at the same date, the Bank also had a wholly-owned banking subsidiary in Malaysia (AR Malaysia) with 16 branches) and two wholly-owned foreign branches – one in Jordan (with 10 branches) and one in Kuwait (with two branches).

The Group operates through four business segments:

- retail banking;
- corporate banking;
- treasury; and
- investment services and brokerage, which principally comprises the consolidated securities, brokerage and asset management activities of its wholly-owned subsidiary, "*AR Capital*".

Management believes that the principal challenges facing the Group are:

- the impact of the COVID-19 pandemic, including its impact on international crude oil prices, and the resulting impact on Saudi Arabia's economy, government spending, employment, stock market prices and other oil-based economic dependencies, all of which are impacting the Group's consumer and business customers;

- adverse changes in regulation, such as caps on lending rates, regulations on fee-based activities, lending and investment restrictions and increases in cost due to the increase in the rate of value added taxes in Saudi Arabia with effect from July 2020G;

- adverse macroeconomic and geopolitical developments including adverse movements in interest rates and exchange rates, negative geopolitical developments affecting the MENA region and social and economic instability; and

- the threat of a significant increase in competition due to recent and potential future consolidation among competitor banks as well as competition from new entrants, particularly financial technology ("**fintech**") entities.

In 2021G, the Bank announced its new Bank of the Future strategy for the 2021G to 2023 period. The four core aims of this strategy are to build on the Bank's core businesses, outperform the market, transform technology and fulfil more customer needs.

The Bank is headquartered in Saudi Arabia. Its shares are listed on Tadawul under ticker symbol 1120. As at 8 September 2022G, the Company had a market capitalisation of SAR 341.22 billion.

PRINCIPAL FACTORS AFFECTING RESULTS OF OPERATIONS

The following is a discussion of the principal factors that have affected, or are expected to affect, the Group's results of operations. The Group is not subject to any seasonal business cycles which affect its business or financial condition.

Economic conditions

The Bank is a Saudi Arabian financial institution focused on lending to, and accepting deposits from, institutions, companies and residents in Saudi Arabia. As a result, its revenues and results of operations are principally affected by economic and market conditions in Saudi Arabia.

In 2019G, Saudi Arabia's nominal GDP increased by 0.8 per cent., according to GASTAT. On a real basis (which principally eliminates the effect of oil price changes), Saudi Arabia's GDP increased by 0.3 per cent. in 2019G. In 2020G, driven by low oil prices and the impact of COVID-19, real GDP in Saudi Arabia fell by 4.1 per cent.

Reduced economic activity in Saudi Arabia will typically negatively impact the Group's operating income in subsequent years. In particular, the Saudi Arabian economy is materially impacted by oil prices. In 2020G, in large part driven by the impact of the COVID-19 pandemic, oil prices fell significantly in March to May although they increased throughout the rest of the year and into 2021G.

In 2021G, Saudi Arabia experienced a recovery from the impact of COVID-19, with GASTAT data showing that Saudi Arabia's real GDP increased by 3.3 per cent. in 2021G.

Any deterioration in economic and market conditions in Saudi Arabia may result in a widening fiscal deficit and the Government may withdraw deposits from the banking system to fund such deficit. Saudi banks (including the Bank) may therefore be exposed to tightened liquidity in such circumstances. *See "Risk factors—Risks relating to the Bank and its ability to fulfil its obligations under the Sukuk—The Group's operations and assets are principally located in Saudi Arabia and, accordingly, the Group is exposed to general economic conditions in Saudi Arabia".*

Factors affecting net financing and investment income

The Group's net financing and investment income comprises its gross financing and investment income less the return it pays on customers', banks' and financial institutions' deposits with the Group (referred to as time investments). The Group's net financing and investment income is the major contributor to its total operating income, comprising 77.3 per cent. of the Group's total operating income in the six months ended 30 June 2022G, 80 per cent. in the six months ended 30 June 2021G, 79.3 per cent. in 2021G, 81.6 per cent. in 2020G and 84.3 per cent. in 2019G. Within net financing and investment income:

- gross financing and investment income earned on instalment sales is the major contributor, comprising 73.7 per cent. of gross financing and investment income in 2021G, 73.8 per cent. in 2020G and 65.8 per cent. in 2019G. The Group's other sources of financing income are corporate mutajara and murabaha transactions and its sources of investment income are murabaha transactions with SAMA, mutajara transactions with banks and its investments in sukuk; and

- the return paid on the Group's customers' time investments is the major contributor to the Group's total return on customers', banks' and financial institutions' time investments, comprising 76.6 per cent. in 2021G, 76.2 per cent. in 2020G and 78.3 per cent. in 2019G. The return paid on the Group's banks' and financial institutions' time investments accounted for 23.4 per cent. in 2021G, 23.8 per cent. in 2020G and 21.8 per cent. in 2019G of the Group's total return on customers', banks' and financial institutions' time investments.

The Group does not provide any breakdown in respect of its net financing and investment income in the unaudited Interim Financial Statements. The Group's net financing and investment income is affected by a number of factors. It is primarily determined by the volume of income-earning financing and investment assets relative to the volume of time investments on which a return is paid by the Group, as well as the differential between the rates earned on income-earning financing and investment assets and paid on time investments. The Group's income-earning financing and investment assets principally consist of its retail and corporate financing advanced and its income-earning investments which include murabaha with the Government and SAMA, sukuk and structured products..

For a discussion of the changes in the Group's net financing and investment income in each of the periods under review, see "*Results of operations—six months ended 30 June 2022G and six months ended 30 June 2021G compared—Net financing and investment income*" and "*Results of operations—2021G, 2020G and 2019G compared—Net financing and investment income*" below.

The Group's net financing and investment income margin (calculated as disclosed under "*Selected financial information—Selected consolidated ratios*") was 3.8 per cent. in the six months ended 30 June 2022G, 4.2 per cent. in 2021G, 4.7 per cent. in 2020G and 5.3 per cent. in 2019G.

Factors affecting fee from banking services, net

The Group's fee from banking services, net comprised 16.4 per cent. of its total operating income in the six months ended 30 June 2022G, 15 per cent. in the six months ended 30 June 2021G, 15.3 per cent. in 2021G, 12.8 per cent. in 2020G and 10.2 per cent. in 2019G. Within fee from banking services, net:

- electronic channel-related fee income is the major contributor to the Group's fee from banking services, net, comprising 33.9 per cent. of total fee income from banking services in 2021G, 37.1 per cent. in 2020G and 37.4 per cent. in 2019G, with fee income from credit cards, fee income from drafts and remittances, net fee income from brokerage and asset management and fee income from other banking services being the other sources of total fee income from banking services in each; and

- ATM interchange-related fees paid were the sole source of fee expense within fees from banking services, net in each year.

The Group does not provide any breakdown in respect of its fee from banking services net in the unaudited Interim Financial Statements. The Group's fee from banking services, net is affected by a number of factors. It is primarily determined by the volume and size of fee earning transactions relative to those on which fees are paid, as well as the differential between the rates charged on fee earning transactions and paid on fee expense bearing transactions.

For a discussion of the changes in the Group's fee from banking services, net in each of the periods under review, see *"Results of operations—six months ended 30 June 2022G and six months ended 30 June 2021G compared—Fee from banking services, net*" and "*Results of operations—2021G, 2020G and 2019G compared—Fee from banking services, net*" below.

Movements in impairment charges for financing and other financial assets, net

The Group's impairment charges for financing and other financial assets, net comprise its on- and off-balance sheet ECL provisions less any recoveries made in respect of previously written off financing. The Group's impairment charges in the six months ended 30 June 2022G were SAR 1,158.7 million compared to SAR 1,161.0 million in the corresponding period of 2021G. The Group's impairment charges in 2021G were SAR 2,345.1 million compared to SAR 2,165.7 million in 2020G and SAR 1,772.3 million in 2019G.

For a discussion of the changes in the Group's impairment charges in each of the periods under review, see "*Results of operations—six months ended 30 June 2022G and six months ended 30 June 2021G compared—Impairment charges for financing and other financial assets, net*" and *"Results of operations—2021G, 2020G and 2019G compared—Impairment charges for financing and other financial assets, net*" below.

Impact of the COVID-19 pandemic

During 2020G, the Bank's management performed a detailed assessment to ascertain the impact of the COVID-19 pandemic and Government and SAMA support measures, such as repayment holidays and other mitigating packages, on the Group's financing portfolio. The Group sought to refine the application of the ECL staging criteria due to the substantial increase in credit risk on affected customers in order to be able to differentiate and reflect appropriately in its ECL models:

- customers whose credit quality appears to have deteriorated on a permanent basis and thus the Group is required to recognise lifetime-ECL losses on such exposures;

- customers whose credit quality has either stayed stable (due to the offsetting nature of available Government and SAMA programmes) or has declined but the decline is deemed to be temporary as the customer has sound fundamentals to emerge strongly post lockdown.

The Group continues to evaluate the current macroeconomic situation and conduct reviews of credit exposure concentrations at a more granular level with a particular focus on specific economic sectors, regions, counterparties and collateral protection, taking appropriate customer credit rating actions and initiating restructuring of financing where required. The credit reviews also take into consideration the impact of Government and SAMA support programmes.

As at 31 December 2020G, the Bank recognised SAR 608 millions of overlays to reflect potential further credit deterioration. In addition, the Bank recognised SAR 437.5 million incremental total ECL for the SME portfolio which has a total exposure of SAR 3.96 billion. As at 31 December 2021G, the Bank recognised overlays of SAR 486 million for corporate of which SAR 228 million represented overlays in respect of its SME portfolio. The Bank will continue to individually assess significant corporate exposures as more reliable data becomes available and accordingly will determine if any adjustment in the ECL is required in subsequent reporting periods.

In response to COVID-19, SAMA launched the Private Sector Financing Support Programme (the "**PSFSP**") in March 2020G to provide support to micro, small and medium enterprises ("**SMEs**"). The PSFSP comprises four main programmes:

- deferred payments programme;
- funding for lending programme;
- facility guarantee programme; and
- point of sale and e-commerce service fee support programme.

As part of the deferred payments programme, the Bank was required to defer payments on lending facilities to those companies that qualify as SMEs. The payment reliefs were considered as short-term liquidity support to address the borrower's potential cash flow issues. The Bank implemented the payment reliefs by deferring instalments falling due from 14 March 2020G to 30 June 2021G and extended the tenor of the applicable financing at no additional costs to the customer. The accounting impact of these changes in terms of the credit facilities has been assessed and the facilities are treated as modified in terms of arrangement in accordance with IFRS 9. This resulted in the Bank recognising modification losses which have been presented as part of net financing income.

On 22 June 2021G, SAMA announced the further extension of the programme for three additional months from 1 July 2021G to 30 September 2021G, only for those SMEs that were still affected by the COVID-19 precautionary measures, in line with guidance issued by SAMA in this regard. In September and December 2021G, further three-month extensions for these affected SME customers were announced by SAMA.

The table below shows the amounts deferred and cost of deferral to the Group as part of this programme for the periods indicated.

Support programme	Instalments deferred	Cost of deferral
	(SAR billion)	(SAR million)
April 2020G to September 2020G	3.1	89.2
October 2020G to December 2020G	1.9	26.7
January 2021G to March 2021G	3.2	49.6
April 2021G to June 2021G	3.5	186.4
July 2021G to September 2021G	0.7	46.2
October 2021G to December 2021G	1.0	57.7
January 2022G to March 2022G	1.1	44.2

In order to compensate all the related costs that the Bank is expected to incur under SAMA and other public authorities' programmes, the Bank received multiple profit free deposits with varying maturities from SAMA in 2021G and in the six months ended 30 June 2022G. Management has determined, based on communications from SAMA, that these deposits constitute a government grant that primarily relate to compensation for the modification loss incurred on the deferral of payments. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. Management has exercised certain judgements in the recognition and measurement of this grant income. During 2021G, SAR 334.5 million (31 December 2020G: SAR 165.5 million) was recognised in the statement of income with respect to these deposits, with an aggregate of SAR 22.8 million deferred grant income as at 31 December 2021G (31 December 2020G: SAR 159.1 million). Management believes that the actions taken have partially mitigated the negative impact of the COVID-19 pandemic on the Bank.

The accounting impact of the Group's participation in SAMA's funding for lending and facility guarantee programmes has been immaterial.

In line with its monetary and financial stability mandate, SAMA injected an amount of SAR 50 billion in order to:

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

Management continues to monitor developments relating to the COVID-19 pandemic that may affect the Bank's activities, however, due to the inability to predict the spread of any new variants and any further COVID-19-related precautionary measures and procedures relating thereto that may emerge in the future, as at the date of this Base Prospectus, Management is unable to determine with a sufficient degree of accuracy, the extent to which the COVID-19 pandemic may have any financial impact on the results of the Bank or the Group.

ZAKAT SETTLEMENT IN 2018G

In 2018G, the Bank reached a settlement agreement with the General Authority of Zakat and Tax (which, in May 2021G was merged with the General Authority of Customs to form the Zakat, Tax and Customs Authority ("**ZATCA**")) to settle its zakat liability for all years up to the year ended 31 December 2017G in the amount of SAR 5,405.3 million. The agreement required the Bank to settle 20 per cent. of the agreed liability in 2018G with the balance being paid in five equal instalments in 2019G, 2020G, 2021G, 2022G and 2023G. The remaining zakat liability is classified as other liabilities.

SIGNIFICANT ACCOUNTING POLICIES

For a discussion of the significant accounting policies applied by the Group generally, see note 3 to the audited 2021G Consolidated Financial Statements.

SIGNIFICANT ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In preparing the Group's Consolidated financial statements, management is required to make certain estimates, judgments and assumptions. These affect the reported amounts of the Group's assets and liabilities, including disclosure of contingent assets and liabilities, as at the date of the financial statements as well as the reported amounts of its revenues and expenses during the periods presented. Management bases its estimates and assumptions on historical experience and other factors that it believes to be reasonable at the time the estimates and assumptions are made and evaluates the estimates and assumptions on an ongoing basis. However, future events and their effects cannot be predicted with certainty and the determination of appropriate estimates and assumptions requires the use of judgment. Actual outcomes may differ from any estimates or assumptions made and such differences may be material to the Financial Statements.

For a discussion of the most significant accounting estimates, judgments and assumptions made in the preparation of the Financial Statements, see note 2(d) to the audited 2021G Financial Statements and note 2(a) of the unaudited condensed Consolidated Interim Financial Statements. These principally include the measurement of the Group's impairment losses under IFRS 9, the measurement of the fair value of its financial instruments and the determination that none of the investment funds for which the Group acts as an investment manager need to be consolidated in the Consolidated Financial Statements.

KEY PERFORMANCE INDICATORS

The Bank considers the following metrics to be the key performance indicators it uses to help evaluate growth trends, establish budgets, and assess operational performance and efficiencies. In addition to the Bank's results determined in accordance with IFRS-KSA, the Group believes the following non-IFRS-KSA financial measures are useful in evaluating the Group's operating performance. See also "Financial and Statistical Information".

- "**Return on average assets**" is defined as net income for the period (annualised in the case of the six-month period ended 30 June 2022G) divided by average total assets, with average total assets calculated as the sum of average total assets for each month in the year divided by the number of months.

- "**Return on average equity**" is defined as net income for the period (annualised in the case of the six-month period ended 30 June 2022G) divided by average total shareholders' equity calculated as the sum of average total shareholders' equity for each month in the year divided by the number of months.

- "**Cost to income ratio**" is defined as total operating expenses before impairment charge divided by total operating income.

- "**Cost of funds**" is calculated as the aggregate return paid on customers', banks' and financial institutions' time deposits divided by average balance of due to banks and other financial institutions and customers' deposits. The average balance is calculated as the sum of the opening and closing balances for the year divided by two.

- "**Net financing and investment income margin**" is defined as net financing and investment income for the period (annualised in the case of the six-month period ended 30 June 2022G) divided by average income earning assets for the year, with average income earning assets calculated as the sum of daily income earning assets divided by the number of days. Income earning assets comprise due from banks and other financial institutions, net, financing, net and investments, net.

- "**NPFA ratio**" is defined as non-performing financing as a percentage of gross financing, each as set out in note 7-1 to the Interim Financial Statements and note 7-1 to the unaudited Interim Financial Statements and note 7-1 to each of the audited Annual Financial Statements.

- "**NPFA coverage ratio**" is defined as expected credit losses in respect of financing as a percentage of non-performing financing.

- "**Liquidity coverage ratio**" is calculated as high liquid assets divided by net cash outflow.

- "**Financing to deposits ratio**" is defined as financing, net divided by total customers' deposits and adjusted in accordance with SAMA guidelines.

- "**Cost of risk**" is calculated as Group Net Credit Loss divided by average gross financing. Average gross financing is calculated as the sum of the opening and closing balances for the year divided by two.

- "**Common equity tier 1 capital adequacy ratio**" is the ratio of the Bank's common tier 1 capital to risk weighted assets calculated in accordance with the requirements of Basel III as adopted by SAMA.

- "**Tier 1 capital adequacy ratio**" is the ratio of the Bank's tier 1 capital to risk weighted assets calculated in accordance with the requirements of Basel III as adopted by SAMA.

- "**Total capital adequacy ratio**" is the aggregate amount of Tier 1 Capital and Tier 2 Capital divided by total risk-weighted assets calculated in accordance with the requirements of Basel III as adopted by SAMA.

- "**Basel Leverage ratio**" is calculated as tier 1 capital divided by total leverage ratio exposure in accordance with the requirements of Basel III as adopted by SAMA.

- "**Net stable funding ratio**" is the ratio of the available amount of stable funding to the required amount of stable funding over the time horizon of one year calculated in accordance with the requirements of Basel III as adopted by SAMA.

The table below outlines the Key Performance Indicators for the Bank:

	As at six months ended 30 June	As at year ended 31 December		
	2022G	2021G	2020G	2019G
	(Per cent.)			
Performance measures				
Return on average assets [1]	2.6	2.7	2.6	2.8
Return on average equity [2]	23.4	23.4	19.9	20.5
Cost to income ratio [3]	25.4	26.9	32.5	32.8
Cost of funds [4]	0.52	0.23	0.13	0.17
Financial ratios				
Net financing and investment income margin [5]	3.8	4.2	4.7	5.3
Asset quality				
NPFA ratio[6]	0.57	0.65	0.76	0.91
NPFA coverage ratio [7]	293.0	305.6	305.6	303.0
Liquidity coverage ratio[8]	121.0	121.0	155.3	175.0
Financing to deposits ratio[9]	83.8	82.3	78.8	79.2
Cost of risk [10]	0.47	0.60	0.75	0.71
Other ratios				
Common equity tier 1 capital adequacy ratio[11]	16.5	16.5	18.0	18.8
Tier 1 capital adequacy ratio[11]	17.9	16.5	18.0	18.8
Total capital adequacy ratio[11]	19.0	17.6	19.1	19.9
Basel Leverage ratio[11]	11.6	11.0	12.0	12.9
Net stable funding ratio [11]	109.8	114.0	123.4	131.9

Source: Financial information in the table above has been extracted from the Group's unaudited condensed Consolidated interim financial statements for the six-month period ended 30 June 2022G, Financial Statement and from the audited consolidated financial statements for the financial years ended 31 December 2021G and 2020G, Financial Statements

Notes:

1. Net income for the period (annualised in the case of the six-month period ended 30 June 2022G) divided by average total assets, with average total assets calculated as the sum of average total assets for each month in the year divided by the number of months.

2. Net income for the period (annualised in the case of the six-month period ended 30 June 2022G) divided by average total shareholders' equity calculated as the sum of average total shareholders' equity for each month in the year divided by the number of months.

3. Total operating expenses before impairment charge divided by total operating income.

4. Calculated as the aggregate return paid on customers', banks' and financial institutions' time deposits divided by average balance of due to banks and other financial institutions and customers' deposits. The average balance is calculated as the sum of the opening and closing balances for the year divided by two.

5. Net financing and investment income for the period (annualised in the case of the six-month period ended 30 June 2022G) divided by average income earning assets for the year, with average income earning assets calculated as the sum of daily income earning assets divided by the number of days. Income earning assets comprise due from banks and other financial institutions, net, financing, net and investments, net.

6. Non-performing financing as a percentage of gross financing, each as set out in note 7-1 to the unaudited Interim Financial Statements and note 7-1 to each of the audited Annual Financial Statements.

7. ECLs in respect of financing as a percentage of non-performing financing.

8. High liquid assets divided by net cash outflow.

9. Financing, net divided by total customers' deposits and adjusted in accordance with SAMA guidelines.

10. Calculated as Group NCL divided by average gross financing. Average gross financing is calculated as the sum of the opening and closing balances for the year divided by two.

11. Calculated in accordance with the requirements of Basel III as adopted by SAMA.

For the purposes of these notes, "**annualised**" means dividing it by six and multiplying it by 12.

RESULTS OF OPERATIONS

The below financial information and the discussion and analysis thereof is based on information derived from the Financial Statements for the following periods (i) the six months ended 30 June 2022G (ii) the year ended 31 December 2021G compared to the year ended 31 December 2020G; and (iii) the year ended 31 December 2020G compared to the year ended 31 December 2019G.

Six months ended 30 June 2022G and six months ended 30 June 2021G compared

Net financing and investment income

Net financing and investment income is the Group's principal source of operating income. The Group earns gross financing and investment income on the financing advanced by it to its customers and on its portfolio of investment income-generating investments.

The Group pays a return on the time deposits made with it by its customers and banks and financial institutions and this return is deducted from its gross financing and investment income to derive its net financing and investment income.

Financing and investment income is recognised in the income statement using the effective yield method, as explained in note 3(h) to the audited 2021G Financial Statements.

The Group's net financing and investment income amounted to SAR 10,906.9 million in the six months ended 30 June 2022G compared to SAR 9,822.3 million in the comparable period of 2021G, an increase of SAR 1,084.6 million, or 11.0 per cent. This increase reflected:

- an increase of SAR 2,212.8 million, or 21.8 per cent., in the Group's gross financing and investment income, from SAR 10,157.9 million in the six months ended 30 June 2021G to SAR 12,370.7 million in the corresponding period of 2022G. This increase in gross financing and investment income was driven by strong growth recorded in the financing and investment portfolios; and

- an increase of SAR 1,128.2 million, or 336.2 per cent., in the return paid by the Group on its customers', banks' and financial institutions' time investments, from SAR 335.6 million in the six months ended 30 June 2021G to SAR 1,463.8 million in the corresponding period of 2022G. This increase in return on customers', banks' and financial institutions' time investments was driven by an increase in customers' time deposits to support the asset growth.

Fee from banking services, net

The Group's fee from banking services, net was SAR 2,310.4 million in the six months ended 30 June 2022G compared to SAR 1,843.1 million in the corresponding period of 2021G, an increase of SAR 467.3 million, or 25.4 per cent. This increase principally reflected fees from payments reflecting the increase in the migration to cashless payment methods during and after the COVID-19 pandemic and improved cross-selling activities.

Other operating income items

The table below shows a breakdown of the Group's other operating income items in each of the six-month periods ended 30 June 2022G and 30 June 2021G.

	Six months ended 30 June (unaudited)		Change
	2022G	2021G	2021G / 2022G
	(SAR million)		(per cent.)
Exchange income, net	544.6	359.4	51.5
Other operating income, net	342.4	259.1	32.2

Source: Group's unaudited Interim Financial Statements.

The Group's other operating income, net is derived from a variety of sources, including rental income from investment properties, dividend income, the Group's proportionate share of profit from its associate and gain on investments held at fair value through the statement of income ("**FVSI**"). The SAR 83.4 million, or 32.2 per cent., increase in other operating income, net in the six months ended 30 June 2022G compared to the corresponding period in 2021G was driven by higher dividend income from the equity portfolio and capital gains from the investment portfolio.

Total operating income

Reflecting the above factors, the Group's total operating income in the six months ended 30 June 2022G amounted to SAR 14,104.4 million compared to SAR 12,283.9 million in the corresponding period of 2021G, an increase of SAR 1,820.5 million, or 14.8 per cent.

Operating expenses

The Group's operating expenses comprise salaries and employees'-related benefits, depreciation and amortisation, other general and administrative expenses and its impairment charge for financing and other financial assets, net.
The table below shows a breakdown of the Group's operating expenses in each of the six-month periods ended 30 June 2022G and 30 June 2021G.

	Six months ended 30 June (unaudited)	
	2022G	2021G
	(SAR million)	
Salaries and employees'-related benefits	1,609.7	1,537.8
Depreciation and amortisation	643.8	539.4
Other general and administrative expenses	1,335.7	1,304.4
Total operating expenses before credit impairment charge	**3,589.1**	**3,381.6**

Source: Group's unaudited condensed Consolidated Interim Financial Statements.

The Group's total operating expenses before credit impairment charge amounted to SAR 3,589.1 million in the six months ended 30 June 2022G compared to SAR 3,381.6 million in the corresponding period of 2021G.

The increase of SAR 207.5 million, or 6.1 per cent., in the six months ended 30 June 2022G principally reflected an increase of SAR 71.9 million, or 4.7 per cent., in salaries and employees'-related benefits, which was driven by business needs to support the Group's asset growth and SAR 31.3 million, or 2.4 per cent., in other general and administrative expenses, which principally reflected increases in a number of transactions.

Impairment charge for financing and other financial assets, net

The Group's impairment charges principally comprise its impairment charge for credit losses and other provisions, net which comprises its net impairment charge for credit losses and its net provision for credit-related commitments and contingencies. In addition, the Group records net impairment charges or reversals for certain other financial assets.

The Group classifies its financial assets into Stage 1, Stage 2 and Stage 3, as described below:

Stage 1: financial instruments which are not credit impaired and for which the credit risk has not increased significantly since initial recognition are classified under Stage 1. When a credit facility is first recognised, the Group recognises a loss allowance based on 12 month ECL.

Stage 2: financial instruments having significant increase in credit risk since origination are classified under Stage 2 (if not impaired). When a credit facility has shown a significant increase in credit risk since origination, the Group records a loss allowance for the life time ECL.

Stage 3: all credit facilities that are credit impaired either at origination or at the reporting date as determined through objective evidence of default or credit impairment, are classified under Stage 3. Credit facilities are considered as credit-impaired where any payment of principal or interest is overdue by more than 89 days or there is other evidence of impairment.

Quantitative and qualitative criteria are also applied for assigning a Stage 3 classification. In such cases, the Group records a loss allowance for the life time ECL.

For further information, see note 3(f)(5) to the audited 2021G Financial Statements.

The Group makes provision for credit losses promptly in line with the applicable accounting standards following the conservative provisioning norms it has set for itself.

The table below shows the determination of the Group's impairment charge for financing and other financial assets, net in each of the six-month periods ended 30 June 2022G and 30 June 2021G.

	Six months ended 30 June (unaudited)	
	2022G	2021G
	(SAR million)	
Provided for the period	1,775.9	1,979.1
Recovery of written off financing for the period	(617.2)	(818.1)
Allowance for financing impairment, net	**1,158.7**	**1,161.0**

Source: Group's unaudited condensed Consolidated Interim Financial Statements.

The Group's allowance for financing impairment, net was SAR 1,158.7 million in the six months ended 30 June 2022G compared to SAR 1,161.0 million in the corresponding period of 2021G, a decrease of SAR 2.2 million, or 0.2 per cent. This reflected a decrease of SAR 203.2 million, or 10.3 per cent., in the amount provided for the period in the six months ended 30 June 2022G compared to the corresponding period in 2021G. This decrease was coupled with a decrease in recovery of written off financing for the period of SAR 200.9 million, or 24.6 per cent., in the six months ended 30 June 2022G compared to the corresponding period in 2021G, which was principally due to management initiatives to revamp and enhance the recovery process.

Total operating expenses

Reflecting the above factors, the Group's total operating expenses in the six months ended 30 June 2022G amounted to SAR 4,747.8 million compared to SAR 4,542.5 million in the corresponding period of 2021G, an increase of SAR 205.3 million, or 4.5 per cent.

Zakat expense

In the six months ended 30 June 2022G, the Group's zakat expense was SAR 964.7 million compared to SAR 801.2 million in the corresponding period of 2021G, an increase of SAR 163.5 million, or 20.4 per cent. This increase principally reflected the Group's higher profit before zakat for the period.

Net income for the period

Reflecting the above factors, the Group's net income for the six months ended 30 June 2022G was SAR 8,391.9 million compared to SAR 6,940.2 million in the corresponding period of 2021G, an increase of SAR 1,451.7 million, or 20.9 per cent.

Other comprehensive income/loss

In the six months ended 30 June 2022G, the Group's other comprehensive loss was SAR 553.9 million compared to other comprehensive income of SAR 611.4 million in the corresponding period of 2021G.

The Group's other comprehensive income in the two six-month periods principally comprised changes in the fair value of its FVOCI investments and re-measurement of its employees' end of service benefits.

The Group's other comprehensive income in the six months ended 30 June 2022G principally reflected a SAR 594.0 million negative change in the fair value of its FVOCI investments and a SAR 158.7 million gain on its employees' end of service benefits.

In the six months ended 30 June 2021G, the Group's other comprehensive income principally reflected a SAR 565.6 million positive change in the fair value of its FVOCI investments and a gain of SAR 48.8 million on its employees' end of service benefits.

Total comprehensive income for the period

Reflecting the above factors and the Group's net income for the period, the Group's total comprehensive income for the six months ended 30 June 2022G was SAR 7,837.9 million compared to SAR 7,551.6 million in the corresponding period of 2021G, an increase of SAR 286.4 million, or 3.8 per cent.

Segmental analysis

The Group's reporting segments comprise:

- **Retail**, which includes individual customers' deposits, credit facilities, customer debit current accounts (overdrafts), fees from banking services and remittance business;
- **Corporate**, which incorporates VIP deposits and corporate customers' deposits, credit facilities and debit current accounts (overdrafts);
- **Treasury**, which includes treasury services, murabaha with SAMA and the Group's international mutajara portfolio; and
- **Investment services and brokerage**, which includes corporate and individual mutual fund investments, local and international share trading services and investment portfolios.

The table below shows certain income statement line items of each of the Group's reporting segments for each of the six-month periods ended 30 June 2022G and 2021G.

	Retail	Corporate	Treasury	Investment services and brokerage	Total
			(SAR million)		
Six months ended 30 June 2022G (unaudited)					
Total operating income	6,861.4	1,871.9	4,817.0	554.1	14,104.4
Income before zakat	3,213.0	1,042.0	4,697.7	403.9	9,356.6
Six months ended 30 June 2021G (unaudited)					
Total operating income	7,034.1	1,494.0	3,203.7	552.1	12,284.0
Income before zakat	2,972.9	1,198.9	3,100.7	468.8	7,741.4

Source: Group's unaudited condensed Consolidated Interim Financial Statements.

Retail segment

The retail segment recorded total operating income of SAR 6,861.4 million in the six months ended 30 June 2022G compared to SAR 7,034.1 million in the corresponding period of 2021G. The decrease of SAR 172.7 million, or 2.5 per cent., in the six months ended 30 June 2022G principally reflected increases of SAR 227.6 million, or 35.0 per cent., in fee from banking services, net, which was driven by growth in the number of customers and their activities. A decrease of SAR 444 million or 7.8 per cent. in net financing and investment income is attributable to increases in inter-segment operating expenses due to increases in retail asset duration driven by a growth in long-term mortgage financing.

The retail segment recorded income before zakat for the six months ended 30 June 2022G of SAR 3,213.0 million compared to SAR 2,972.9 million in the corresponding period of 2021G. The increase of SAR 240.1 million, or 8.1 per cent., in the six months ended 30 June 2022G principally reflected SAR 412.7 million lower operating expenses. The decrease in operating expenses in the six months ended 30 June 2022G principally reflected a SAR 496.5 million, or 44.8 per cent., decrease in impairment charges due to the updating of IFRS 9 ECL models and an updating of macroeconomic models in the second half of 2022G.

Corporate segment

The corporate segment recorded total operating income of SAR 1,871.9 million in the six months ended 30 June 2022G compared to SAR 1,494.0 million in the corresponding period of 2021G. The increase of SAR 377.9 million, or 25.3 per cent., in the six months ended 30 June 2022G principally reflected a decrease of SAR 106.7 million, or 21.8 per cent., in fee from banking services, net, but an increase of SAR 439.9 million, or 45.9 per cent., in net financing and investment income, which was driven by an increase in the corporate financing portfolio.

The corporate segment recorded income before zakat for the six months ended 30 June 2022G of SAR 1,042.0 million compared to SAR 1,198.9 million in the corresponding period of 2021G. The decrease of SAR 156.9 million, or 13.1 per cent., in the six months ended 30 June 2022G principally reflected the SAR 534.8 million increase in operating expenses as against with a SAR 377.9 million increase in operating income described above. The increase in operating expenses in the six months ended 30 June 2022G principally reflected a SAR 484.3 million, or 983.6 per cent., increase in impairment charges.

Treasury

The treasury segment recorded total operating income of SAR 4,817.0 million in the six months ended 30 June 2022G compared to SAR 3,203.7 million in the corresponding period of 2021G. The increase of SAR 1,613.3 million, or 50.4 per cent., in the six months ended 30 June 2022G principally reflected an increase of SAR 1,065.2 million, or 39.4 per cent., in net financing and investment income, which was driven by an increase in the investment portfolio.

The treasury segment recorded income before zakat for the six months ended 30 June 2022G of SAR 4,697.7 million compared to SAR 3,100.7 million in the corresponding period of 2021G. The increase of SAR 1,597.0 million, or 51.5 per cent., in the six months ended 30 June 2022G principally reflected the SAR 1,613.3 million increase in operating income described above.

Investment services and brokerage

The investment services and brokerage segment recorded total operating income of SAR 554.1 million in the six months ended 30 June 2022G compared to SAR 552.1 million in the corresponding period of 2021G. The increase of SAR 2.0 million, or 0.4 per cent., in the six months ended 30 June 2022G principally reflected an increase of SAR 23.5 million, or 77.3 per cent., in net financing and investment income.

The investment services and brokerage segment recorded income before zakat for the six months ended 30 June 2022G of SAR 403.9 million compared to SAR 468.8 million in the corresponding period of 2021G. The decrease of SAR 64.9 million, or 13.8 per cent., in the six months ended 30 June 2022G principally reflected a SAR 66.9 million increase in operating expenses.

2021G, 2020G and 2019G compared

The Group's net financing and investment income amounted to SAR 20,391.9 million in 2021G compared to SAR 16,913.0 million in 2020G and SAR 16,427.7 million in 2019G, an increase of SAR 3,478.9 million or 20.6 per cent. in 2021G compared to 2020G and an increase of SAR 485.3 million, or 3.0 per cent., in 2020G compared to 2019G.

Gross financing and investment income

The table below shows a breakdown of the Group's gross financing and investment income in each of 2021G, 2020G and 2019G.

	2021G (audited)	2020G (audited)	2019G (audited)
		(SAR million)	
Financing			
Corporate mutajara	2,263.8	1,629.2	2,531.8
Instalment sale	15,806.3	12,819.6	11,154.9
Murabaha	686.4	802.9	859.6
Investments and other			
Murabaha with SAMA	1,167.7	970.6	1,210.8
Mutajara with banks	1,230.4	980.3	1,007.5
Income from sukuk	286.9	175.3	197.9
Gross financing and investment income	**21,441.5**	**17,377.9**	**16,962.5**

Source: Group's audited Consolidated Annual Financial Statements.

The Group's gross financing and investment income in 2021G amounted to SAR 21,441.5 million compared to SAR 17,377.9 million in 2020G and SAR 16,962.5 million in 2019G, an increase of SAR 4,063.5 million, or 23.4 per cent. in 2021G compared to 2020G and an increase of SAR 415.4 million, or 2.4 per cent., in 2020G compared to 2019G.

The SAR 4,063.5 million increase in 2021G compared to 2020G principally reflected (i) a SAR 2,986.7 million, or 23.3 per cent., increase in gross financing income from instalment sales and (ii) a SAR 634.6 million, or 39.0 per cent. increase, in gross financing income from corporate mutajara, in each case reflecting strong growth recorded in the portfolios.

The SAR 415.4 million increase in 2020G compared to 2019G principally reflected a SAR 1,664.7 million, or 14.9 per cent., increase in gross financing income from instalment sales which principally reflected an increase in the financing portfolio. This increase was offset by decreases in all other items of gross financing and investment income including, in particular, a decrease of SAR 902.6 million, or 35.7 per cent., in gross financing income from corporate mutajara which principally reflected lower average interest rates in 2020G compared to 2019G and a decrease of SAR 240.2 million, or 19.8 per cent., in gross investment income from murabaha with SAMA which also principally reflected lower average interest rates.

Return on customers', banks' and financial institutions' time investments

The table below shows a breakdown of the Group's return on customers', banks' and financial institutions' time investments in each of 2021G, 2020G and 2019G.

	2021G (audited)	2020G (audited)	2019G (audited)
		(SAR million)	
Return on customers' time investments	(803.9)	(354.2)	(418.9)
Return on due to banks' and financial institutions' time investments	(245.7)	(110.8)	(116.0)
Return on customers', banks' and financial institutions' time investments	**(1,049.6)**	**(465.0)**	**(534.9)**

Source: Group's audited Consolidated Annual Financial Statements.

The Group's return on customers', banks' and financial institutions' time investments amounted to SAR 1,049.6 million in 2021G compared to SAR 465 million in 2020G and SAR 534.9 million in 2019G, an increase of SAR 584.6 million, or 125.7 per cent., in 2021G compared to 2020G and a decrease of SAR 69.9 million, or 13.1 per cent., in 2020G compared to 2019G.

The SAR 584.6 million increase in return of customers', banks' and financial institutions' time investments in 2021G compared to 2020G reflected increases of (i) SAR 449.7 million, or 127.0 per cent., in return on customers' time investments and (ii) SAR 134.9 million, or 121.8 per cent., in return on due to bank and financial institutions' time deposits, in each case reflecting growth in time investments and deposits.

The SAR 69.9 million decrease in return on customers', banks' and financial institutions' time investments in 2020G compared to 2019G principally reflected a SAR 64.7 million decrease in return on customers' time investments, which was driven by lower average interest rates in 2020G compared to 2019G.

Fee from banking services, net

The table below shows a breakdown of the Group's fee from banking services, net in each of 2021G, 2020G and 2019G.

	2021G (audited)	2020G (audited)	2019G (audited)
		(SAR million)	
Fee income			
Drafts and remittances	258.9	270.4	355.0
Credit cards	516.0	416.8	441.7
Other electronic channel related	1,514.8	1,218.3	1,068.3
Brokerage and asset management, net	803.5	672.2	281.2
Others	1,376.3	702.4	711.5
Total fee income	**4,469.5**	**3,280.1**	**2,857.7**
Fee expenses			
ATM interchange related	(536.4)	(620.5)	(870.3)
Fee from banking services, net	**3,933.1**	**2,659.6**	**1,987.4**

Source: Group's audited Consolidated Annual Financial Statements.

The Group's fee from banking services, net amounted to SAR 3,933.1 million in 2021G compared to SAR 2,659.6 million in 2020G and SAR 1,987.4 million in 2019G, an increase of SAR 1,273.5 million, or 47.9 per cent. in 2021G compared to 2020G and an increase of SAR 672.2 million, or 33.8 per cent., in 2020G compared to 2019G.

2021G and 2020G compared

The SAR 1,273.5 million increase in the Group's fee from banking services, net in 2021G principally reflected the following factors:

- an increase of SAR 296.5 million, or 24.3 per cent., in other electronic channel related fee income, which was driven by increased online activity; and
- an increase of SAR 673.9 million, or 95.9 per cent., in others, which principally reflected increased activity and customer numbers.

2020G and 2019G compared

The SAR 672.2 million increase in the Group's fee from banking services, net in 2020G principally reflected the following factors:

- an increase of SAR 391.0 million, or 139.1 per cent., in net brokerage and asset management income, which was driven by higher traded volumes in the Saudi Stock Exchange;
- an increase of SAR 150.0 million, or 14.0 per cent., in other electronic channel related fee income, which was driven by continued migration to digital payment methods; and
- a decrease of SAR 249.8 million, or 28.7 per cent., in ATM interchange-related fee expense, which was driven by fewer ATM cash withdrawals driven by the migration to digital payments methods.

Other operating income items

The table below shows a breakdown of the Group's other operating income items in each of 2021G, 2020G and 2019G.

	2021G (audited)	2020G (audited)	2019G (audited)
		(SAR million)	
Exchange income, net	787.9	783.9	774.1
Other operating income, net	603.5	364.7	295.3

Source: Group's audited Consolidated Annual Financial Statements.

The Group's exchange income, net was SAR 787.9 million in 2021G compared to SAR 783.9 million in 2020G and SAR 774.1 million in 2019G, an increase in 2021G of SAR 4.0 million, or 0.5 per cent., and an increase in 2020G of SAR 9.8 million, or 1.3 per cent.

The Group's other operating income, net was SAR 603.5 million in 2021G compared to SAR 364.7 million in 2020G and SAR 295.3 million in 2019G, an increase in 2021G of SAR 238.8 million or 65.5 per cent. and an increase in 2020G of SAR 69.4 million, or 23.5 per cent.

The increase of SAR 238.8 million in 2021G principally reflected (i) SAR 75.1 million, or 79.6 per cent., higher dividend income from the Group's equity portfolio and (ii) SAR 207.8 million, or 231.7 per cent., higher other income, net, which principally reflected gain on sale of investments. This was mainly offset by a SAR 71.3 million negative change in gain or loss on investments held at FVSI due to movement in the profit rate from a gain of SAR 33.4 million in 2020G to a loss of SAR 37.9 million in 2021G.

The increase of SAR 69.4 million in 2020G was principally driven by an increase of SAR 35.8 million, or 61.1 per cent. in dividend income, reflecting an increase in equity and mutual fund portfolios balances and an increase of SAR 19.5 million, or 82.9 per cent., in share in profit of associate, mainly driven by increases in the income of Al-Rajhi Company For Cooperative Insurance during 2020G.

Total operating income

Reflecting the above factors, the Group's total operating income was SAR 25,716.4 million in 2021G compared to SAR 20,721.3 million in 2020G and SAR 19,484.5 million in 2019G, an increase of SAR 4,995.1 million, or 24.1 per cent., in 2021G compared to 2020G and an increase of SAR 1,236.8 million, or 6.3 per cent., in 2020G compared to 2019G.

Operating expenses

The table below shows a breakdown of the Group's operating expenses in each of 2021G, 2020G and 2019G.

	2021G (audited)	2020G (audited)	2019G (audited)
		(SAR million)	
Salaries and employees'-related benefits	3,132.3	2,977.3	2,794.0
Depreciation and amortisation	1,141.9	1,118.1	1,059.6
Other general and administrative expenses	2,652.2	2,646.4	2,532.2
Impairment charge for financing and other financial assets, net	2,345.1	2,165.7	1,772.3
Total operating expenses	**9,271.6**	**8,907.5**	**8,158.1**

Source: Group's audited Consolidated Annual Financial Statements.

The Group's total operating expenses amounted to SAR 9,271.6 million in 2021G compared to SAR 8,907.5 million in 2020G and SAR 8,158.1 million in 2019G, an increase of SAR 364.0 million, or 4.1 per cent., in 2021G compared to 2020G and an increase of SAR 749.5 million, or 9.2 per cent., in 2020G compared to 2019G.

2021G and 2020G compared

The SAR 364.0 million increase in 2021G principally reflected:

- an increase of SAR 179.3 million, or 8.3 per cent., in impairment charge for financing and other financial assets, net, which principally reflected an increase in on-balance sheet provisions for financing of SAR 588.4 million, or 18.3 per cent., driven by overall financing portfolio growth which was offset by (i) a SAR 135 million release of off-balance sheet provisions in 2021G compared to an off-balance sheet provision of SAR 200.1 million in 2020G and (ii) an increase in recovery of written off financing for the year of SAR 73.9 million, or 5.9 per cent., in 2021G compared to 2020G, which was principally due to management initiatives to revamp and enhance the recovery process;

- an increase of SAR 155.0 million, or 5.2 per cent., in salaries and employees'-related benefits which principally reflected an increase in business demand to support asset growth.

2020G and 2019G compared

The SAR 749.5 million increase in 2020G principally reflected:

- an increase of SAR 393.5 million, or 22.2 per cent., in impairment charge for financing and other financial assets, net, which principally reflected an increase in on-balance sheet provisions for financing of SAR 378 million, or 13.3 per cent., driven by overall financing portfolio growth and provisions related to COVID-19;

- an increase of SAR 183.3 million, or 6.6 per cent., in salaries and employees'-related benefits which principally reflected an increase in business demand to support asset growth;

- an increase of SAR 114.2 million, or 4.5 per cent., in other general and administrative expenses which reflected increases in (i) communications and utilities expenses of SAR 147.2 million, or 30.6 per cent., due to business demand and higher prices including VAT, (ii) maintenance and security expenses of SAR 87.0 million, or 18.9 per cent., due to business requirements and contingency expenses related to COVID-19 and (iii) software and IT support expenses of SAR 73.8 million, or 26.6 per cent., due to an increase in business needs and additional IT expenses related to the COVID-19 pandemic. These increases were partially offset by a fall of SAR 176.9 million, or 18.5 per cent., in other categories of operational expense, principally as a result of management initiatives to improve expense control; and

- an increase of SAR 58.6 million, or 5.5 per cent., in depreciation and amortisation which was due to an increase in depreciable assets during 2019G.

Zakat for the year

The Group's zakat expense for the year was SAR 1,698.6 million in 2021G compared to SAR 1,218.1 million in 2020G and SAR 1,167.8 million in 2019G, in each case principally reflecting the Group's higher profit before zakat for the period.

The Group has filed its zakat and income tax returns with ZATCA and paid zakat for the financial years up to and including 2020G.

All assessments up to the year ended 31 December 2017G have been finalised following a settlement agreement with ZATCA reached in 2018G that settled an outstanding Zakat liability amounting to SAR 5,405 million. The settlement agreement required the Bank to settle 20 per cent. of the agreed zakat liability in 2018G with the remaining 80 per cent. being paid in five equal annual instalments.

Net income for the year

Reflecting the above factors, the Group's net income in 2021G was SAR 14,746.2 million compared to SAR 10,595.5 million in 2020G and SAR 10,158.5 million in 2019G, an increase of SAR 4,150.7 million, or 39.2 per cent. in 2021G compared to 2020G and an increase of SAR 437.0 million, or 4.3 per cent., in 2020G compared to 2019G.

Other comprehensive income or loss

The Group's other comprehensive income was SAR 444.1 million in 2021G compared to SAR 81.3 million in 2020G and SAR 133.5 million in 2019G.

The Group's other comprehensive income in 2021G principally reflected a SAR 399.3 million positive change in the fair value of its FVOCI equity investments.

The Group's other comprehensive income in 2020G principally reflected a SAR 254.2 million positive change in the fair value of its FVOCI equity investments offset by a SAR 179.6 million negative change on re-measurement of employees' end of service benefits.

The Group's other comprehensive income in 2019G principally reflected a SAR 178.8 million positive change in the fair value of its FVOCI equity investments offset by a SAR 51.6 million negative change on re-measurement of employees' end of service benefits.

Total comprehensive income for the year

Reflecting the above factors and the Group's net income for each year, the Group's total comprehensive income in 2021G was SAR 15,190.3 million compared to SAR 10,676.9 million in 2020G and SAR 10,292.0 million in 2019G.

Segmental analysis

The table below shows certain income statement line items of each of the Group's reporting segments for each of 2021G, 2020G and 2019G. Reflecting reclassifications between segments in 2021G and to make the analysis below the table more meaningful, the table shows (i) 2020G (comparative) information which has been extracted from the audited 2021G Financial Statements and is directly comparable to the audited 2021G information and (ii) 2020G (original) information which has been extracted from the audited 2020G Financial Statements and is directly comparable to the 2019G information.

	Retail	Corporate	Treasury	Investment services and brokerage	Total
			(SAR million)		
2021G (audited)					
Total operating income	14,006.7	3,520.3	7,215.2	974.1	**25,716.4**
Income before zakat	6,189.4	2,416.7	7,037.0	801.7	**16,444.8**
2020G (comparative) (audited)					
Total operating income	13,456.5	2,730.9	3,728.4	805.4	**20,721.3**
Income before zakat	6,251.2	1,390.4	3,524.5	647.5	**11,813.6**
2020G (original) (audited)					
Total operating income	13,361.4	2,614.7	3,939.8	805.4	**20,721.3**
Income before zakat	6,143.1	1,287.9	1,287.9	647.5	**11,813.6**
2019G (audited)					
Total operating income	13,590.8	2,531.9	2,898.3	463.4	**19,484.4**
Income before zakat	6,426.4	2,150.4	2,438.6	310.9	**11,326.3**

Source: Group's audited Consolidated Annual Financial Statements.

Retail segment

The retail segment recorded total operating income of SAR 14,006.7 million in 2021 compared to SAR 13,465.4 million in 2020G (on a comparative basis) and total operating income of SAR 13,361.4 million in 2020G on an original basis compared to SAR 13,590.8 million in 2019G.

The increase of SAR 550.1 million, or 4.1 per cent., in total operating income in 2021G compared to 2020G (comparative) principally reflected increases of SAR 453.4 million, or 27.5 per cent., in fee from banking services, net, which was driven by growth in the number of customers and their activities.

The decrease of SAR 229.4 million, or 1.7 per cent., in total operating income in 2020G compared to 2019G principally reflected a decrease of SAR 1,038.9 million, or 8.4 per cent., in net financing and investment income which was driven by strong asset growth in long maturity products which resulted in high fund transfer pricing in 2020G substantially offset by an increase of SAR 844.8 million, or 87.0 per cent., in fee from banking services, net, which was driven by an increase in the number of customers and their transactions.

The retail segment recorded income before zakat of SAR 6,189.4 million in 2021G compared to SAR 6,251.2 million in 2020G (on a comparative basis) and income before zakat of SAR 6,143.1 million in 2020G on an original basis compared to SAR 6,426.4 million in 2019G.

The decrease of SAR 61.8 million, or 1.0 per cent., in income before zakat in 2021G compared to 2020G principally reflected SAR 612.1 million, or 8.5 per cent., higher operating expenses which was offset by the SAR 550.1 million increase in operating income described above. The increase in operating expenses in 2021G principally reflected a SAR 633.3 million, or 55.0 per cent., increase in impairment charges, which was driven by the increase in the retail portfolio.

The decrease of SAR 283.3 million, or 4.4 per cent., in income before zakat in 2020G compared to 2019G reflected the SAR 229.4 million lower total operating income discussed above coupled with SAR 53.9 million, or 0.8 per cent., higher total operating expenses.

Corporate segment

The corporate segment recorded total operating income of SAR 3,520.3 million in 2021G compared to SAR 2,730.9 million in 2020G (on a comparative basis) and total operating income of SAR 2,614.7 million (on an original basis) in 2020G compared to SAR 2,531.9 million in 2019G.

The increase of SAR 789.4 million, or 28.9 per cent., in total operating income in 2021G compared to 2020G principally reflected an increase of SAR 684.2 million, or 236.1 per cent., in fee from banking services, net, which was driven by an increase in payments revenue and cross selling activities, including cash management, and SAR 108.2 million, or 4.6 per cent., in net financing and investment income, which was driven by an increase in the corporate financing portfolio.

The increase of SAR 82.8 million, or 3.3 per cent., in total operating income in 2020G compared to 2019G principally reflected an increase of SAR 294.9 million, or 14.1 per cent., in net financing and investment income which was driven by lower rates which resulted in lower fund transfer pricing in 2020G substantially offset by a decrease of SAR 242.8 million, or 66.2 per cent., in fee from banking services, net, which was driven by a decrease in business activities and fee waivers during the COVID-19 pandemic.

The corporate segment recorded income before zakat of SAR 2,416.7 million in 2021G compared to SAR 1,390.4 million in 2020G (on a comparative basis) and income before zakat of SAR 1,287.9 million in 2020G compared to SAR 2,150.4 million in 2019G.

The increase of SAR 1,026.3 million, or 73.8 per cent., in income before zakat in 2021G compared to 2020G principally reflected the SAR 789.4 million increase in operating income described above coupled with SAR 236.7 million, or 17.7 per cent., lower operating expenses in the same period. The decrease in operating expenses in 2021G principally reflected a SAR 448.2 million, or 44.2 per cent., reduction in impairment charges, which was driven by recoveries and an improved economic outlook offset be a SAR 203.1 million, or 71.4 per cent., increase in other operating expenses.

The decrease of SAR 862.5 million, or 40.1 per cent., in income before zakat in 2020G compared to 2019G reflected an increase of SAR 945.3 million, or 247.8 per cent., in total operating expenses due to the increase in net impairment charges as a result of the COVID-19 pandemic offset by the SAR 82.8 million higher total operating income discussed above coupled with.

Treasury segment

The treasury segment recorded total operating income of SAR 7,215.2 million in 2021G compared to SAR 3,728.4 million in 2020G (on a comparative basis) and total operating income of SAR 3,939.8 million in 2020G and SAR 2,898.3 million in 2019G.

The increase of SAR 3,486.8 million, or 93.5 per cent., in total operating income in 2021G compared to 2020G principally reflected an increase of SAR 3,325.4 million, or 104.0 per cent., in net financing and investment income, which was driven by an increase in the investment portfolio.

The increase of SAR 1,041.5 million, or 35.9 per cent., in total operating income in 2020G compared to 2019G principally reflected an increase of SAR 1,205.9 million, or 60.5 per cent., in net financing and investment income which was driven by fund transfer pricing changes and was partially offset by a decrease of SAR 204.7 million, or 81.2 per cent., in fee from banking services, net, which was driven by lower business activities during the period.

The treasury segment recorded income before zakat of SAR 7,037.0 million in 2021G compared to SAR 3,524.5 million in 2020G (on a comparative basis) and income before zakat of SAR 3,735.1 million in 2020G compared to SAR 2,438.6 million in 2019G.

The increase of SAR 3,512.5 million, or 99.7 per cent., in income before zakat in 2021G compared to 2020G principally reflected the SAR 3,486.8 million increase in operating income described above.

The increase of SAR 1,296.4 million, or 53.2 per cent., in income before zakat in 2020G compared to 2019G reflected the SAR 1,041.5 million higher total operating income discussed above coupled with SAR 254.9 million, or 55.5 per cent., lower total operating expenses due to the reclassification of certain business units to the retail segment.

Investment services and brokerage segment

The investment services and brokerage segment recorded total operating income of SAR 974.1 million in 2021G compared to SAR 805.4 million in 2020G (on a comparative basis) and total operating income of SAR 805.4 million in 2020G compared to SAR 463.4 million in 2019G.

The increase of SAR 168.8 million, or 21.0 per cent., in total operating income in 2021G compared to 2020G principally reflected an increase of SAR 123.6 million, or 18.4 per cent., in fee from banking services, net, which was driven by brokerage fees given the increase in the volume traded on the Saudi Stock Exchange coupled with AR Capital's leading market share in brokerage.

The increase of SAR 342.0 million, or 73.8 per cent., in total operating income in 2020G compared to 2019G principally reflected an increase of SAR 274.9 million, or 69.2 per cent., in fees from banking services, net which was driven by brokerage fees from increased traded volume on the Saudi Stock Exchange and an increase of SAR 43.6 million, or 104.4 per cent., in other operating income, net, which was driven by an increase in business activities.
The investment services and brokerage segment recorded income before zakat of SAR 801.7 million in 2021G compared to SAR 647.5 million in 2020G (on a comparative basis) and income before zakat of SAR 647.5 million in 2020G and SAR 310.9 million in 2019G.

The increase of SAR 154.2 million, or 23.8 per cent., in income before zakat in 2021G compared to 2020G principally reflected the SAR 168.8 million increase in operating income described above. The increase of SAR 336.6 million, or 108.3 per cent., in income before zakat in 2020G compared to 2019G reflected the SAR 342.0 million higher total operating income discussed above coupled with substantially flat total operating expenses.

LIQUIDITY AND FUNDING

Overview

The Group's liquidity needs arise primarily from making financing available to its customers, making investments in securities and the payment of expenses (including its financing costs). To date, the Group's liquidity needs have been funded principally through deposits and operating cash flow, including income received in respect of its financing and from its investment securities. See "—*Funding*" below.

Liquidity

The tables below show the Group's cash flow from operating activities, investing activities and financing activities for the six-month periods ended 30 June in each of 2022G and 2021G and for each of 2021G, 2020G and 2019G.

	Six months ended 30 June (unaudited)	
	2022G	2021G
	(SAR million)	
Net cash generated from operating activities	13,107.1	658.7
Net cash used in investing activities	(14,352.5)	(16,152.5)
Net cash from / (used in) financing activities	6,424.4	(2,518.9)
Cash and cash equivalents at the beginning of the period	24,296.8	34,087.0
Cash and cash equivalents at the end of the period	29,475.8	16,074.3

	2021G (audited)	2020G (audited)	2019G (audited)
	(SAR million)		
Net cash generated from operating activities	19,953.4	24,420.0	4,186.5
Net cash used in investing activities	(24,503.1)	(8,911.8)	(5,185.6)
Net cash used in financing activities	(6,037.4)	(3,792.3)	(7,676.0)
Cash and cash equivalents at the beginning of the period	32,827.4	21,111.4	29,786.5
Cash and cash equivalents at the end of the period	22,240.2	32,827.4	21,111.4

Source: Group's unaudited condensed Consolidated Interim Financial Statements and Group's audited Consolidated Annual Financial Statements.

Operating activities

Six months ended 30 June 2022G and six months ended 30 June 2021G

The Group's net cash inflow from operating activities for the six months ended 30 June 2022G was SAR 13,107.1 million compared to SAR 658.7 million for the corresponding period in 2021G.

The Group's net cash from operating activities before changes in operating assets and liabilities amounted to SAR 11,157 million in the six months ended 30 June 2022G and SAR 9,440 million in the corresponding period in 2021G. The Group's net cash from operating activities before changes in operating assets and liabilities in each period principally reflected its income before zakat for the period adjusted to add back its impairment charge for financing and other financial assets, net and its depreciation and amortisation charge.

The principal changes in operating assets and liabilities in the six months ended 30 June 2022G were a cash outflow of SAR 68,028.8 million from financing advanced to customers and a cash inflow of SAR 40,884.6 million from deposits accepted. The principal changes in operating assets and liabilities in the six months ended 30 June 2021G were a cash outflow of SAR 75,744.6 million from financing advanced to customers and a cash inflow of SAR 64,875 million from deposits accepted.

The years ending in 2021G, 2020G and 2019G

The Group's net cash inflow from operating activities for 2021G was SAR 19,953.4 million compared to SAR 24,420.0 million for 2020G and SAR 4,186.5 million for 2019G.

The Group's net cash from operating activities before changes in operating assets and liabilities amounted to SAR 19,890.2 million in 2021G compared to SAR 15,010.9 million in 2020G and SAR 14,129.8 million in 2019G. The Group's net cash from operating activities before changes in operating assets and liabilities in each year principally reflected its income before zakat for the period adjusted to add back its impairment charge for financing and other financial assets, net and its depreciation and amortisation charge.

The principal changes in operating assets and liabilities in 2021G were a cash outflow of SAR 139,463.6 million from financing advanced to customers and a cash inflow of SAR 129,441.2 million from deposits accepted. The principal changes in operating assets and liabilities in 2020G were a cash outflow of SAR 68,195.0 million from financing advanced to customers and a cash inflow of SAR 70,225.2 million from deposits accepted. The principal changes in operating assets and liabilities in 2019G were a cash outflow of SAR 18,496.7 million from deposits accepted.

Investing activities

Six months ended 30 June 2022G and six months ended 30 June 2021G

Net cash used in investing activities for the six months ended 30 June 2022G was SAR 14,352.5 million compared to SAR 16,152.5 million in the corresponding period in 2021G. In each period, the principal investment activities were the purchase and redemption of investments held at amortised costs and, to a significantly lesser extent, the purchase and sale of FVOCI investments.

In the six months ended 30 June 2022G, the Group invested a net amount of SAR 24,529.4 million in investments held at amortised cost. In the six months ended 30 June 2021G, the Group invested a net amount of SAR 15,703.1 million in investments held at amortised cost and SAR 922.2 million in FVOCI investments.
The Group's purchases of property and equipment amounted to SAR 1,206.2 million in the six months ended 30 June 2022G compared to SAR 849.0 million in the corresponding period of 2021G.

2021G, 2020G and 2019G

Net cash used in investing activities for 2021G was SAR 24,503.1 million compared to SAR 8,911.8 million in 2020G and SAR 5,185.6 million in 2019G.

In 2021G, the Group invested a net amount of SAR 20,839.3 million in investments held at amortised cost and a net SAR 2,164.0 million in FVOCI investments.

In 2020G, the Group invested a net amount of SAR 5,649.6 million in investments held at amortised cost and a net SAR 2,364.8 million in FVOCI investments.

In 2019G, the Group invested a net amount of SAR 3,065.4 million in investments held at amortised cost and a net SAR 489.6 million in FVOCI investments.

The Group's purchases of property and equipment amounted to SAR 2,386.5 million in 2021G compared to SAR 945.7 million in 2020G and SAR 1,527.1 million in 2019G. In addition, in 2019G, the Group invested SAR 103.5 million in an investment property.

	Land	Buildings	Leasehold land and buildings improvements	Equipment and furniture	Right-of-use assets	Total
	(SAR million)					
Cost						
At 1 January 2019	2,343.8	4,329.5	949.8	4,951.7	1,352.4	13,927.1
Additions	0.2	1,884.3	383.7	384.4	177.7	2,830.3
Disposals	(6.1)	-	-	(32.2)	-	(38.3)
At 31 December 2019 (audited)	2,337.9	6,213.8	1,333.5	5,303.9	1,530.1	16,719.2
Additions	27.7	7.0	259.6	630.8	20.6	945.7
Disposals	(14.6)	(38.9)	-	(45.3)	-	(98.8)
At 31 December 2020 (audited)	2,351.0	6,181.9	1,593.0	5,889.5	1,550.1	17,566.1
Additions	106.6	137.3	46.4	2,093.1	3.2	2,386.5
Disposals	(20.8)	(126.9)	-	(1,154.4)	-	(1,302.1)
As at 31 December 2021 (audited)	2,436.8	6,192,4	1,639.4	6,828.1	1,553.9	18,650.5
Accumulated Depreciation						
As at 1 January 2019	-	484.2	919.2	3,874.3	-	5,277.7
Charge for the year	-	373.8	77.6	368.3	239.8	1,059.6
Disposals	-	-	-	(25.3)	-	(25.3)
At 31 December 2019 (audited)	-	858.0	996.8	4,217.2	239.8	6,311.9
Charge for the year	-	137.2	102.2	628.1	212.7	1,080.2
Disposals	-	(32.0)	-	(28.8)	-	(60.8)
At 31 December 2020 (audited)	-	963.2	1,099.0	4,816.5	452.6	7,331.3
Charge for the year	-	135.2	0.1	770.1	211.0	1,116.3
Disposals	-	(1.0)	-	(461.8)	-	(462.9)
At 31 December 2021 (audited)	-	1,097.4	1,099.1	5,124.7	663.5	7,984.7

	Land	Buildings	Leasehold land and buildings improvements	Equipment and furniture	Right-of-use assets	Total
	(SAR million)					
Net Book Value						
At 31 December 2021	2,436.8	5,095.0	540.3	1,703.4	890.3	1,0665.8
At 31 December 2020	2,351.0	5,218.7	494.0	1,073.0	1,098.1	10,234.8
At 31 December 2019	2,3379	5,355.8	336.6	1,086.7	1,290.3	10,407.2

Source: Group's audited Consolidated Annual Financial Statements.

Buildings include work–in–progress amounting to SAR 271 million as at 31 December 2021 (2020: SAR 225 million; 2019: SAR 159 million), and technology–related assets include work–in–progress amounting to SAR 419 million as of December 2021 (2020: SAR 595 million; 2019: SAR 608 million).

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the date of each statement of financial position. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in consolidated statement of income.

Other expenditures are capitalised only when it is probable that the future economic benefit of the expenditure will flow to the Group. Ongoing repairs and maintenance costs are expensed when incurred.

Financing activities

Six months ended 30 June 2022G and six months ended 30 June 2021G

Net cash generated from financing activities was SAR 6,424.4 million in the six months ended 30 June 2022G compared to net cash used in financing activities of SAR 2,518.9 million in the corresponding period of 2021G.

In the six months ended 30 June 2022G, the Group's financing cash outflows were SAR 18.4 million in payment against lease obligations. In the six months ended 30 June 2021G, the Group's financing cash outflows were SAR 2,500.0 million in dividends paid and SAR 18.9 million in payment against lease obligations. No dividend was paid in the six months ended 30 June 2022G.

2021G, 2020G and 2019G

Net cash used in financing activities was SAR 6,037.4 million in 2021G compared to SAR 3,792.3 million in 2020G compared to SAR 7,676.0 million in 2019G.

In 2020G, the Group's financing cash outflows were SAR 3,750.0 million in dividends paid and SAR 42.3 million in payment against lease obligations. In 2019G, the Group's principal financing cash outflows were SAR 7,406.3 million in dividends paid and SAR 269.8 million in payment against lease obligations.

Funding structure

Overview

The Group's principal source of funding is its customers' deposits and, based on various behavioural analyses conducted by both external consultants and internal teams, the Bank believes its current account deposits are a stable source of funding. The Bank also believes that its top 20 deposit concentration level is significantly below the market level. Its other funding source is placements made with it by other banks and financial institutions. The issue of the Sukuk is intended to help diversify the Group's funding sources. In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7 per cent. of its total demand deposits and 4 per cent. of its saving and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20 per cent. of its deposit liabilities, in the form of cash, Government bonds and sukuk and assets that can be converted into cash within 30 days.

The Bank also has the ability to raise additional funds through repo facilities with SAMA against Government bonds and sukuk up to 100 per cent. of the nominal value of bonds and sukuk held in local currency.

The Group's customers' deposits were SAR 552,956.8 million, or 88.1 per cent. of its total liabilities, as at 30 June 2022G, SAR 512,072.2, or 92.0 per cent. of its total liabilities, as at 31 December 2021G, SAR 382,631.0 million, or 93.2 per cent. of its total liabilities, as at 31 December 2020G and SAR 312,405.8 million, or 93.8 per cent. of its total liabilities, as at 31 December 2019G.

The table below shows the Group's funding (in the form of due to banks and other financial institutions (which represents deposits placed with it by other banks) and customers' deposits) as at 30 June 2022G and as at 31 December in each of 2021G, 2020G and 2019G.

	As at 30 June (unaudited)	As at 31 December (audited)		
	2022G	2021G	2020G	2019G
	(SAR million)			
Due to banks and other financial institutions	42,532.0	17,952.1	10,764.1	2,219.6
Customers' deposits	552,956.8	512,072.2	382,631.0	312,405.8
Total funding	**595,488.8**	**530,024.3**	**393,395.1**	**314,625.4**

Source: Group's unaudited condensed Consolidated Interim Financial Statements and Group's audited Consolidated Annual Financial Statements.

The table below shows the Group's funding split into that which is profit bearing and that which is not profit bearing as at 31 December in each of 2021G, 2020G and 2019G.

	As at 31 December (audited)		
	2021G	2020G	2019G
		(SAR million)	
Profit bearing funding	148,245.2	53,781.4	24,345.8
Non-profit bearing funding deposits	381,779.1	339,613.7	290,279.6
Total funding	**530,024.3**	**393,395.1**	**314,625.4**

Source: Group's audited Consolidated Annual Financial Statements.

Most of the Group's funding is non-profit bearing, reflecting the significant proportion of non-profit bearing deposits in the Group's funding mix, as discussed below.

Customers' deposits

The Group's customers' deposits principally comprise time deposits and demand deposits. The Group's demand deposits are mostly non-profit bearing and amounts may be withdrawn from these accounts at any time without notice. Time deposits are eligible for profit distribution and have a fixed maturity date.

The Group believes that its customers' deposits are diversified and constitute a stable and secure source of low cost funding. As at 30 June 2022, the Group's customers' deposits accounted for 92.9 per cent. of its total funding set out in the table above.

The Group's demand deposits constituted 70.3 per cent. and its time deposits constituted 28.2 per cent. of its total customers' deposits as at 30 June 2022G. The Group accepts time deposits for a range of maturities.

As at 31 December 2021G the Group's foreign currency deposits amounted to SAR 36,624.1 million, or 7.2 per cent. of its total customers' deposits, compared to SAR 17,377.5 million, or 4.5 per cent., as at 31 December 2020G and SAR 13,836.0 million, or 4.6 per cent., as at 31 December 2019G.

The table below shows a breakdown of the Group's customers' deposits by type as at 30 June 2022G and as at 31 December in each of 2021G, 2020G and 2019G. Reflecting reclassifications in 2021G, the table shows (i) 2020G (comparative) information which has been extracted from the audited 2021G Financial Statements and is directly comparable to the 2021G information and (ii) 2020G (original) information which has been extracted from the audited 2020G Financial Statements and is directly comparable to the 2019G information.

	As at 30 June (unaudited)		As at 31 December (audited)		
	2021G	2020G	2020G (comparative)	2020G (original)	2019G
	(SAR million)				
Demand deposits	388,505.3	374,724	332,918.2	327,572.5	284,300.0
Customers' time investments	155,750.3	130,293.1	43,017.3	43,017.3	22,126.2
Other customer accounts	8,701.2	7,053.8	6,693.5	12,041.2	5,979.7
Total	**552,956.8**	**512,072.2**	**382,631.0**	**382,631.0**	**312,405.8**

Source: Group's unaudited condensed Consolidated Interim Financial Statements and Group's audited Consolidated Annual Financial Statements.

As at 30 June 2022G, the Group's total customers' deposits increased by SAR 40,884.6 million, or 7.4 per cent., compared to 31 December 2021G. As at 31 December 2021G, the Group's total customers' deposits increased by SAR 129,441.2 million, or 33.8 per cent., compared to 31 December 2020G. As at 31 December 2020G, the Group's total customers' deposits increased by SAR 70,225.2 million, compared to 31 December 2019G. In both cases, the increases reflected growth in both demand and time deposits, driven by an increase in customers and raising deposits to support asset growth.

Based on an analysis of the published financial statements of Saudi Arabian banks, the Group has market shares of 23.2 per cent. in total deposits and 26.1 per cent. in demand deposits.

Due to banks and other financial institutions

The Group's deposits from banks (referred to as due to banks and other financial institutions in the Financial Statements) comprise current accounts and time investments. The Group's deposits from banks are typically short-term in nature and volatile over time. The Group's deposits from banks amounted to SAR 42,532.0 million as at 30 June 2022G, SAR 17,952.1 million as at 31 December 2021G, SAR 10,764.1 million as at 31 December 2020G and SAR 2,219.6 million as at 31 December 2019G. The significant increase as at 31 December 2020G compared to 31 December 2019G principally reflected interest free deposits received from SAMA as part of its PSFSP, see "*Principal factors affecting results of operations—Impact of the COVID-19 pandemic*" above.

Maturity profile

The table below shows the maturity profile of the Group's funding as at 31 December 2021G. This analysis is based on contractual undiscounted repayment obligations and reflects when the funding is expected to be settled.

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
(audited)	(SAR million)					
Due to banks and other financial institutions	7,085.6	2,698.9	5,698.5	-	1,749.1	17,952.1
Customers' deposit	74,764.3	56,247.8	6,314.8	20,000.0	374,725.4	512,072.2
Other liabilities	-	-	-	-	26,338.7	26,338.7
Total funding	**82,569**	**58,946.6**	**12,013.3**	**20,000.0**	**402,813**	**556,363.1**

Source: Group's audited Consolidated Annual Financial Statements.

A significant proportion of the Group's funding disclosed in the table above as at 31 December 2021G is short-term in nature, with only 2.2 per cent. of such funding having a fixed maturity in excess of one year (on a contractual undiscounted payment obligations basis). See "*Risk factors—Risks relating to the Bank and its ability to fulfil its obligations under the Sukuk—The Group is subject to the risk that liquidity may not always be readily available*".

Given the state-run and oil-driven nature of the domestic economy, the Group's deposit base is, at least in the near future, expected to remain concentrated by depositor type, namely Government and Government-related entities.

Equity funding

The Group's equity funding comprises mainly ordinary share capital, the statutory reserve and retained earnings.

As at 30 June 2022G, the Group's share capital amounted to SAR 40,000.0 million, comprising 4,000 million shares of SAR 10 each. As at the same date, its statutory reserve amounted to 25,000.0 million and its retained earnings amounted to SAR 10,657.7 million. In February 2022G, the board of directors recommended to the Extraordinary General Assembly an increase in the Bank's capital to SAR 40 billion through capitalisation of SAR 15 billion from the retained earnings by way of granting three shares for every five shares owned. An extraordinary general assembly to approve this recommendation is scheduled for later in 2022G.

I n accordance with the Banking Control Law, a minimum of 25 per cent. of the Bank's annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up share capital of the Bank. The Bank has reached the required limit. The statutory reserve is not available for distribution.

The Bank's other reserves comprise an FVOCI reserve, a foreign currency translation reserve, an employee share plan reserve and a reserve for the actuarial losses or gains on employee end of service benefits.

Debt funding

The Bank has issued SAR 6,500,000,000 Fixed Rate Resettable Additional Tier 1 Capital Sukuk issued by the Bank on 22 January 2022 (the "**Capital Sukuk**"). The Capital Sukuk are perpetual securities in respect of which there is no fixed redemption date. The Capital Sukuk represent an undivided ownership interest of the holders in various assets without any preference or priority among themselves, with each unit of Capital Sukuk constituting an unsecured, conditional and subordinated obligation of the Bank classified under equity. The Bank has the exclusive option to redeem or call all of the Capital Sukuk on or after 23 January 2027 or any periodic distribution date thereafter, subject to the terms and conditions of the Capital Sukuk. The applicable profit rate on the Capital Sukuk is payable on each periodic quarterly distribution date, except upon the occurrence of a non-payment event or non-payment election by the Bank, whereby the Bank may at its sole discretion, subject to certain terms and conditions, elect not to make any distributions. Such non-payment event or non-payment election are not considered to be events of default and the amounts not paid thereof shall not be cumulative or compound with any future distributions.

The Group has no other borrowing or indebtedness, bank overdrafts, liabilities under acceptances, acceptance credits or hire purchase commitments.

There are no mortgages, rights or charges on the Group's properties.

There has not been any commissions, discounts, brokerages or other non-cash compensation granted within the three years immediately preceding the application for registration and admission to listing in connection with an issue or offer of any securities by the Issuer or any of the Issuer's subsidiaries.

FINANCING

The Group's total financing, net was SAR 519,700.7 million as at 30 June 2022G.

The table below shows the composition of the Group's financing, net (which is held at amortised cost) as at 30 June 2022G and as at 31 December in each of 2021G, 2020G and 2019G.

	Retail	Corporate	Total
		(SAR million)	
As at 30 June 2022G (unaudited)			
Performing financing	413,686.3	111,850.9	525,537.2
Non-performing financing	1,471.8	1,553.0	3,024.8
Gross financing	**415,158.0**	**113,403.9**	**528,562.0**
Provision for financing impairment	(4,924.0)	(3,937.3)	(8,861.2)
Financing, net	**410,234.1**	**109,466.7**	**519,700.7**
As at 31 December 2021G (audited)			
Performing financing	369,450.7	89,568.1	459,018.7
Non-performing financing	1,500.1	1,510.0	3,010.1
Gross financing	**370,950.8**	**91,078.0**	**462,028.8**
Provision for financing impairment	(5,201.4)	(3,996.7)	(9,198.2)
Financing, net	**365,749.3**	**87,081.3**	**452,830.7**

	Retail	Corporate	Total
		(SAR million)	
As at 31 December 2020G (audited)			
Performing financing	254,270.9	66,467.5	320,738.4
Non-performing financing	754.2	1,690.9	2,445.1
Gross financing	**255,025.1**	**68,158.3**	**323,183.5**
Provision for financing impairment	(4,341.6)	(3,129.8)	(7,471.4)
Financing, net	**250,659.4**	**65,052.8**	**315,712.1**
As at 31 December 2019G (audited)			
Performing financing	189,925.8	64,459.8	254,385.6
Non-performing financing	629.7	1,687.1	2,316.8
Gross financing	**190,555.5**	**66,146.9**	**256,702.4**
Provision for financing impairment	(3,832.5)	(3,187.1)	(7,019.6)
Financing, net	**186,723.0**	**62,959.8**	**249,682.8**

Source: Group's unaudited Consolidated Interim Financial Statements and the Group's audited Consolidated Annual Financial Statements.

The Group's financing is principally denominated in riyal, although financing is also advanced in U.S. dollars, Malaysian ringgit, Jordanian dinar, Kuwaiti dinar, euro, UAE dirham and Japanese yen. The Group believes that there is only limited structural cross-currency exposure as the majority of its assets and liabilities are match-funded in currency terms. In addition, the Group hedges a part of its currency exposure through the use of derivative contracts.

The Group's financing, net predominantly comprises retail financing and to a more limited extent corporate financing. The Group's financing is principally advanced in the form of:

- **instalment financing**, where the Bank purchases a commodity or an asset and sells it to the customer based on a purchase promise from the client with a deferred price higher than the cash price;

- **mutajara finance**, where the Bank purchases a commodity or an asset and sells it to the customer based on a purchase promise from the client with a deferred price higher than the cash price, accordingly the client becomes debtor to the Bank in the sale amount and for the period agreed in the contract; and

- **murabaha finance**, where the Bank purchases a commodity or asset and sells it to the customer with a price representing the purchase price plus a profit known and agreed by the customer, which means that the client is aware of the cost and the profit separately.

Note 7-1(a) to each of the audited Consolidated Annual Financial Statements includes a table showing the breakdown of the Group's financing by type.

Distribution of the Group's financing, net by segment

The table below shows the distribution of the Group's financing, net by segment as at 31 December in each of 2021G, 2020G and 2019G.

	Retail	Corporate	SME	Financial institutions	Total
			(SAR million)		
As at 31 December 2021G (audited)	365,749.3	70,935.7	15,861.6	284.0	452,830.7
As at 31 December 2020G (audited)	250,683.5	53,285.8	9,882.5	1,860.2	315,712.1
As at 31 December 2019G (audited)	186,723.0	54,369.2	5,529.1	3,061.5	249,682.8

Source: Group's audited Consolidated Annual Financial Statements.

The Group's financing, net portfolio is dominated by retail financing which comprised 80.8 per cent. of the total portfolio as at 31 December 2021G, 79.4 per cent. as at 31 December 2020G and 74.8 per cent. as at 31 December 2019G. Corporate financing and SME financing comprised 15.7 per cent. and 3.5 per cent., respectively, as at 31 December 2021G, 16.9 per cent. and 3.1 per cent., respectively, as at 31 December 2020G and 21.8 per cent. and 2.2 per cent., respectively, as at 31 December 2019G.

The table below shows the distribution of the Group's retail financing, net by segment as at 31 December in each of 2021G, 2020G and 2019G.

	Personal	Mortgage	Automobile	Credit card	Total
			(SAR million)		
As at 31 December 2021G (audited)	179,877.8	170,775.0	16,590.1	3,707.9	370,950.8
As at 31 December 2020G (audited)	132,682.8	104,485.9	14,504.2	3,352.1	255,025.1
As at 31 December 2019G (audited)	116,636.9	55,012.2	15,730.6	0.0	190,555.5

Source: Group's audited Consolidated Annual Financial Statements.

The Group's retail financing, gross principally comprises personal financing and mortgage financing, which comprised 48.5 per cent. and 46.0 per cent., respectively, of the total retail financing, gross as at 31 December 2021G, 52.0 per cent. and 41.0 per cent., respectively, as at 31 December 2020G and 61.2 per cent. and 28.9 per cent., respectively, as at 31 December 2019G.

Distribution of the Group's financing, net by maturity

The table below shows the distribution of the Group's financing, net by contractual maturity based on discounted cash flows as at 31 December in each of 2021G, 2020G and 2019G.

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
			(SAR million)			
As at 31 December 2021G (audited)	37,545.5	61,436.8	189,946.2	163,902.2	-	452,830.7
As at 31 December 2020G (audited)	31,579.4	44,631.5	132,208.7	107,292.5	-	315,712.1
As at 31 December 2019G (audited)	31,245.3	45,898.2	115,517.8	57,021.5	-	249,682.8

Source: Group's audited Consolidated Annual Financial Statements.

As 31 December 2021G, 8.3 per cent. of the Group's financing, net fell due for repayment in less than three months, 13.6 per cent. fell due for repayment between three and 12 months, 41.9 per cent. fell due for repayment between one and five years and the remaining 36.2 per cent. had a maturity in excess of five years.

Distribution of the Group's financing, net by geography

The table below shows the distribution of the Group's financing, net by geographic location of the customer as at 31 December in each of 2021G, 2020G and 2019G.

	Mutajara	Instalment sale	Murabaha	Credit cards	Total
			(SAR million)		
As at 31 December 2021G (audited)					
Inside Saudi Arabia	68,293.3	367,098.2	12,111.0	3,709.9	451,212.5
Outside Saudi Arabia	1,379.0	4,880.0	4,550.6	6.7	10,816.3
Gross financing	**69,672.4**	**371,978.2**	**16,661.6**	**3,716.6**	**462,028.8**
Provision for financing impairment	(3,959.8)	(4,978.5)	(61.7)	(198.2)	(9,198.2)
Financing, net	**65,712.6**	**366,999.7**	**16,599.9**	**3,518.4**	**452,830.7**
As at 31 December 2020G (audited)					
Inside Saudi Arabia	40,214.6	255,015.9	14,595.8	3,345.8	313,293.7
Outside Saudi Arabia	—	4,753.54	5,130.0	6.2	9,889.7
Gross financing	**40,214.6**	**259,769.4**	**19,725.8**	**3,352.0**	**323,183.4**
Provision for financing impairment	(2,983.3)	(4,398.9)	(55.7)	(20.8)	(7,471.3)
Financing, net	**37,231.3**	**255,479.5**	**19,670.1**	**3,331.2**	**315,712.1**
As at 31 December 2019G (audited)					
Inside Saudi Arabia	44,619.6	187,029.2	11,580.2	3,168.7	246,397.7
Outside Saudi Arabia	—	4,505.0	5,792.7	7.0	10,304.7
Gross financing	**44,619.6**	**191,534.2**	**17,372.9**	**3,175.7**	**256,702.4**
Provision for financing impairment	(3,042.3)	(3,810.2)	(144.8)	(22.3)	(7,019.6)
Financing, net	**41,577.2**	**187,724.0**	**17,228.1**	**3,153.5**	**249,682.8**

Source: Group's audited Annual Financial Statements.

The Group's financing is concentrated in Saudi Arabia, with 97.7 per cent. of its gross financing as at 31 December 2021G being advanced within Saudi Arabia.

Distribution of the Group's financing, net by credit quality

The table below shows the distribution of the Group's financing, net by IFRS 9 stage as at 31 December 2021G, 2020G and 2019G.

	Neither past due nor impaired	Past due but not impaired	Impaired	Total	Allowance for impairment	Financing, net
			(SAR million)			
As at 31 December 2021G (audited)	449,653.8	9,364.9	3,010.1	462,028.8	(9,198.2)	452,830.7
As at 31 December 2020G (audited)	311,276.6	9,461.7	2,445.1	323,183.5	(7,471.4)	315,712.1
As at 31 December 2019G (audited)	245,760.3	8,625.3	2,316.8	256,702.4	(7,019.6)	249,682.8

Source: Group's audited Consolidated Annual Financial Statements.

Financing past due for less than 90 days is not treated as impaired, unless other available information proves otherwise. The categories "neither past due nor impaired" and "past due but not impaired" comprise total performing financing and the impaired category is considered to be non-performing financing. As at 31 December 2021G, 0.7 per cent. of the Bank's total financing was non-performing.

Economic sector risk concentration of the Group's financing, net

The table below shows the concentration of the Group's financing, net by the economic sector in which the borrower operates as at 31 December 2021G.

	Performing	Non-performing	Allowance for impairment	Financing, net
(audited)		(SAR million)		
Commercial	32,288.0	544.1	(427.9)	32,404.2
Industrial	32,577.2	137.4	(104.5)	32,610.1
Building and construction	3,329.9	709.1	(668.3)	3,370.8
Consumer	369,450.7	1,500.1	(1,163.7)	369,787.1
Services	17,747.6	114.1	(71.3)	17,790.3
Agriculture and fishing	474.1	0.1	(0.1)	474.1
Others	3,151.3	5.1	(4.2)	3,152.2
Total	**459,018.7**	**3,010.1**	**(2,440.0)**	**459,588.8**
12 month and life time ECL not credit impaired			(6,758.2)	(6,758.2)
Balance	**459,018.7**	**3,010.1**	**(9,198.2)**	**452,830.7**

Source: Group's audited Annual Financial Statements.

The principal economic sector concentrations in the Group's financing are:

- consumer financing, which constituted 80.5 per cent. of the Group's total financing before ECL allowance and had a ratio of non-performing to total performing and non-performing consumer financing of 0.4 per cent. as at 31 December 2021G. The Group's allowance for impairment in respect of its consumer financing represented 77.6 per cent. of its impaired consumer financing as at 31 December 2021G;

- industrial financing, which constituted 7.1 per cent. of the Group's total financing before ECL allowance and had a ratio of non-performing to total performing and non-performing industrial financing of 0.4 per cent. as at 31 December 2021G. The Group's allowance for impairment in respect of its industrial financing represented 76.1 per cent. of its impaired industrial financing as at 31 December 2021G; and

- commercial financing, which constituted 7.1 per cent. of the Group's total financing before ECL allowance and had a ratio of non-performing to total performing and non-performing commercial financing of 1.7 per cent. as at 31 December 2021G. The Group's allowance for impairment in respect of its commercial financing represented 78.6 per cent. of its impaired commercial financing as at 31 December 2021G.

INVESTMENTS, NET

The Group's investments portfolio comprises (i) a portfolio of fixed income investments held at amortised cost, principally sukuk and murabaha with the Government and SAMA; (ii) a portfolio of mutual fund investments, structured products and sukuk held at FVSI; (iii) a portfolio of equity and sukuk investments held at FVOCI; and (iv) its investment in its associate, AR CCI, in which the Bank holds 35 per cent. of the share capital.

The majority (90.7 per cent. as at 30 June 2022G) of the Group's investments are held at amortised cost, with a small proportion (3.9 per cent. as at 30 June 2022G) being held at FVSI and a small proportion (5.5 per cent. as at 30 June 2022G) being held at FVOCI.

The table below summarises the Group's investments, net as at 31 December in each of 2021G, 2020G and 2019G.

	As at 30 June (unaudited)	As at 31 December (audited)		
	2022G	2021G	2020G	2019G
	(SAR million)			
Investments held at amortised cost				
Murabaha with Government and SAMA	22,670.0	22,612.0	22,904.0	24,992.0
Sukuk	63,662.7	48,102.6	25,240.5	17,973.4
Structured products	1,000.0	1,000.0	1,000.0	—
Less: impairment (stage 1)	(40.7)	(31.8)	(27.0)	(22.3)
Total investments held at amortised cost	**87,292.0**	**71,682.8**	**49,117.5**	**42,943.1**
Investments held at FVSI				
Mutual funds	2,977.0	2,650.6	2,545.9	1,230.7
Structured products	728.1	788.8	1,502.5	—
Sukuk	32.2	32.7	2,588.6	800.0
Total FVSI investments	**3,737.5**	**3,472.1**	**6,637.0**	**2,030.7**

	As at 30 June (unaudited)	As at 31 December (audited)		
	2022G	2021G	2020G	2019G
	(SAR million)			
FVOCI investments				
Equity investments	2,208.9	5,148.9	3,687.3	1,672.6
Sukuk	3,052.6	3,834.6	604.3	—
Less: impairment (stage 1)	(0.235)	(0.261)	(0.247)	—
Total FVOCI investments	**5,261.3**	**8,983.3**	**4,291.6**	**1,672.6**
Investments, net	**96,290.1**	**84,138.1**	**60,046.1**	**46,646.4**

Source: Group's unaudited condensed Consolidated Interim Financial Statements and Group's audited Consolidated Annual Financial Statements.

The Group's investments are split between quoted and unquoted securities, with 66.4 per cent. being quoted as at 31 December 2021G and 33.6 per cent. being unquoted. As at 31 December 2021G, 95.2 per cent. of the Group's fixed income investments were considered to have an investment grade rating.

As at 31 December 2021G, SAR 7,426.1 million, or 8.8 per cent. of the Group's investments, were in non-Saudi entities. The table below shows the composition of the Group's investments, net by counterparty as at 31 December in each of 2021G, 2020G and 2019G.

	As at 31 December (audited)		
	2021G	2020G	2019G
	(SAR million)		
Government and quasi government	67,632.7	45,718.8	41,780.9
Banks and other financial institutions	5,534.3	5,091.1	800.0
Companies	8,647.6	6,956.4	3,053.2
Mutual funds	2,650.6	2,545.9	1,230.7
Less: Impairment (stage1)	(31.8)	(27.0)	(22.3)
Investment, net	**84,433.4**	**60,285.2**	**46,842.5**

Source: Group's unaudited condensed consolidated Interim Financial Statements and Group's audited Consolidated Annual Financial Statements.

For further information on the manner in which the fair value of the Group's investments is determined, see note 29 to the audited 2021G Financial Statements.

CAPITAL ADEQUACY

Capital adequacy, financial leverage and the use of various levels of regulatory capital are monitored regularly by the Group's management and are also governed by guidelines of the Basel Committee on Banking Supervision (the "**Basel Committee**") as adopted by SAMA.

The SAMA Basel III framework consists of three pillars:

- pillar 1, which provides a framework for measuring capital requirements for credit, operational and market risks;
- pillar 2, which relates to the supervisory review process and emphasises the importance of the internal capital adequacy assessment process ("**ICAAP**") performed by banks; and
- pillar 3, which aims to complement the pillar 1 and pillar 2 capital adequacy requirements by requiring banks to provide a consistent and understandable disclosure framework which facilitates comparison, thus enhancing the safety and soundness of the banking industry in Saudi Arabia.

Under the Basel III framework, the minimum requirements for capital are underpinned by a leverage ratio that serves as a backstop to the risk-based capital measures. There are also buffer requirements in the form of a capital conservation buffer, a counter-cyclical capital buffer and an additional surcharge for banks designated as D-SIBs.

A key objective for the Group is to maximise shareholders' value with optimal levels of risk, whilst maintaining a strong capital base to support the development of its business and comply with externally imposed capital requirements. The Group adheres to SAMA's requirements by monitoring its capital adequacy and adopting both a capital forecasting process that ensures that pro-active action is taken where necessary and a strategy that ensures that a sufficient capital buffer above minimum required levels is maintained at all times.

As at 30 June 2022G, the Group's tier 1 capital adequacy ratio (calculated according to Basel III standards for pillar 1) was 17.9 per cent. and its total capital adequacy ratio was 19.0 per cent. The Group has been designated as a D-SIB with an additional common equity tier 1 D-SIB surcharge of 0.5 per cent. Accordingly, the Group's total minimum pillar 1-based capital requirement as at 30 June 2022G is 11.0 per cent., which also includes a capital conservation buffer of 2.5 per cent.

The table below shows the Group's Pillar 1 risk-weighted assets, total capital and related ratios as at 30 June 2022G and as at 31 December in each of 2021G, 2020G and 2019G.

	As at 30 June (unaudited)	As at 31 December (audited)		
	2022G	2021G	2020G	2019G
	(SAR million)			
Credit risk-weighted assets	430,666.3	385,415.2	280,374.0	234,300.0
Operational risk-weighted assets	37,798.8	37,798.8	33,318.7	30,784.1
Market risk-weighted assets	2,671.5	2,414.7	9,316.4	7,236.6
Total Pillar risk-weighted assets	**471,136.7**	**425,628.8**	**323,009.0**	**272,320.7**
Tier 1 capital	84,315.4	70,191.5	58,118.5	51,191.7
Tier II capital	5,383.3	4,817.7	3,504.7	2,928.8
Total capital	**89,698.8**	**75,009.2**	**61,623.2**	**54,120.4**
Capital adequacy ratio	**(per cent.)**			
Tier 1 capital ratio	17.90	16.49	17.99	18.80
Total capital ratio	19.04	17.62	19.08	19.87

Source: Group's unaudited condensed consolidated Interim Financial Statements and Group's audited Consolidated Annual Financial Statements.

The declines in the Group's capital adequacy ratios between each of the dates shown in the table above reflected a faster rate of increase in the Group's risk-weighted assets than in its regulatory capital.

In January 2022G, the Bank issued SAR6.5 billion of Additional Tier 1 Capital Sukuk which should have a positive impact on its Tier 1 and total capital ratios in 2022G.

The Bank's Basel III leverage ratio, which is calculated in accordance with the Basel III leverage ratio and disclosure requirements was 11.6 per cent. as at 30 June 2022G and 11.0 per cent., 12.0 per cent. and 12.9 per cent. as at 31 December in each of 2021G, 2020G and 2019G, respectively. The required leverage ratio for the Bank is 3.0 per cent.

CONTINGENT LIABILITIES AND COMMITMENTS

The Group has credit-related contingent liabilities in respect of funding commitments it has made as well as in relation to letters of credit, guarantees and acceptances issued by it. The table below shows these contingent liabilities and commitments as at 30 June in each of 2022G and 2021G and as at 31 December in each of 2021G, 2020G and 2019G.

	As at 30 June (unaudited)		As at 31 December (audited)		
	2022G	2021G	2021G	2020G	2019G
	(SAR million)				
Letters of credit	6,610.8	4,331.9	5,213.2	2,379.4	890.9
Acceptances	1,345.6	646.2	857.6	670.8	325.0
Letters of guarantee	11,985.7	6,453.4	7,731.6	5,443.2	4,973.2
Irrevocable commitments to extend credit	10,846.7	8,123.7	11,284.9	10,662.7	11,636.1
Total	**30,788.6**	**19,555.1**	**25,087.2**	**19,156.1**	**17,825.2**

Source: Group's unaudited Interim Financial Statements and Group's audited Annual Financial Statements.

Note 16(c) to each of the audited Annual Financial Statements set out a maturity analysis of the Group's credit-related contingent liabilities and commitments. The majority of them are short-term in nature with 86.4 per cent. expiring within one year as at 31 December 2021G.

The Bank also has capital commitments in respect of IT improvements and branch improvements, which amounted to SAR 458 million and SAR 193 million, respectively, as at 31 December 2021G.

The Group is also party to legal proceedings in the ordinary course of its business.

DERIVATIVE FINANCIAL INSTRUMENTS

In the ordinary course of business, the Group utilises Islamic foreign exchange agreements for hedging purposes. The Group also offers profit rate swaps and other derivative products to customers to hedge their risks.

These derivatives financial instruments are initially recognised at fair value on the date on which the derivative contract is entered into. These instruments 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 table below shows the notional amounts and the positive and negative fair values of the Group's derivative financial instruments analysed by the term to maturity. 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 market risk.

			Notional amounts by term to maturity				
Derivative financial instruments 31 December 2021 (audited)	**Positive fair value**	**Negative fair value**	**Notional amount Total**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**
			(SAR million)				
Held for trading							
Profit rate swaps	179.7	(150.5)	17,305	-	7,034.8	4,218.2	6,052.2
Foreign exchange forward contracts	12.2	(11.9)	228.0	170.1	57.9	-	-
FX Swaps	16.7	(5.3)	7,443.5	7,443.5	-	-	-
Total	**208.6**	**(167.6)**	**24,976.7**	**7,613.6**	**7,092.7**	**4,218.2**	**6,052.2**

Derivative financial instruments 31 December 2020 (audited)	**Positive fair value**	**Negative fair value**	**Notional amount Total**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**
			(SAR million)				
Held for trading							
Profit rate swaps	30.5	22.2	9,127.8	-	-	5,438.7	3,689.0
Foreign exchange forward contracts		(1.9)	1,353.5	786.5	567.0	-	-
FX Swaps	-	-	-	-	-	-	-
Total	**32.6**	**(24.0)**	**10,481.3**	**786.5**	**567.0**	**5,4387**	**3,689.0**

Source: Group's audited Consolidated Annual Financial Statements.

The Group did not enter into any material derivatives financial instruments in the year ended 31 December 2019

SUMMARY OF CERTAIN PRINCIPAL TRANSACTION DOCUMENTS

The following is a summary of certain provisions of certain principal Transaction Documents and is qualified in its entirety by reference to the detailed provisions of such principal Transaction Document. Copies of such Transaction Documents will be available for inspection at the offices of the Issuer.

Master Mudaraba Agreement

The Master Mudaraba Agreement will be entered into on 20 October 2022 between the Issuer (as rab-al-maal) and the Sukukholders' Agent (as Mudareb) and will be governed by the laws and regulations of Saudi Arabia.

Under the Master Mudaraba Agreement, the Sukukholders' Agent (acting as rab-al-maal on behalf of the Sukukholders) will irrevocably appoint the Issuer as Mudareb in respect of each Series.

In respect of each Tranche, the Sukukholders' Agent shall, on the relevant Issue Date, pay an amount equal to the Mudaraba Capital for that Tranche to the Mudareb to apply as the capital of the Mudaraba of the relevant Series in accordance with the terms of the Master Mudaraba Agreement.

The Mudaraba of each Series will commence on the date of payment of the Mudaraba Capital of the first Tranche of that Series to the Mudareb and will end: (i) on the date (being, in respect of each Mudaraba, the "**Mudaraba End Date**") on which the Sukuk of that Series are redeemed in whole but not in part in accordance with the Conditions, following the constructive liquidation of the relevant Mudaraba in accordance with the terms of the Master Mudaraba Agreement; or (ii) (if earlier) in the case of a Write-down resulting in the reduction of the Aggregate Nominal Amount of each Sak then outstanding under the relevant Series to nil, on the Non-Viability Event Write-down Date.

In accordance with the terms of the Master Mudaraba Agreement, the Mudareb shall invest the Mudaraba Capital in relation to each Tranche on the relevant Issue Date on an unrestricted co-mingling basis in the Shari'a compliant banking activities of the Mudareb carried out through the general mudaraba pool of the Issuer comprising (a) the Issuer's shareholders' equity; (b) proceeds of all current, savings and investment deposit accounts with the Issuer; (c) any other source of funds from financial and investment activities included in the general mudaraba pool by the Issuer from time to time; and (d) following contribution of Mudaraba Capital from time to time in respect of a Mudaraba, the Mudaraba Capital of each Mudaraba then existing (the "**General Mudaraba Pool**") in accordance with an investment plan scheduled to the Master Mudaraba agreement (the "**Investment Plan**"). The Mudaraba of each Series shall, following investment of the Mudaraba Capital of that Mudaraba in the General Mudaraba Pool in accordance with the Investment Plan, constitute pro rata undivided assets in the General Mudaraba Pool (being the "**Mudaraba Assets**" of a Mudaraba).

In the Master Mudaraba Agreement, the Mudareb will:

(a) acknowledge and agree that the Investment Plan is prepared by it with due skill, care and attention;

(b) represent and warrant to the Sukukholders' Agent that the Investment Plan is fair and accurate in all material respects; and

(c) acknowledge that:

   (i) the Sukukholders' Agent will enter into each Mudaraba in reliance on the Investment Plan; and

   (ii) the terms of the Investment Plan shall apply to each Mudaraba.

The Mudareb is authorised to co-mingle any of its own assets from time to time with the Mudaraba Assets during the term of any Mudaraba, **provided that** prior to the calculation of any Mudaraba Profit or Final Mudaraba Profit for a relevant Mudaraba the Mudareb shall deduct a proportion of any profit earned for its own account.

The Mudareb will manage the Mudaraba of each Series based on its expertise and shall be entitled to share in the profit arising from each Mudaraba in accordance with the terms of the Master Mudaraba Agreement. The Master Mudaraba Agreement provides that the Mudareb shall, subject to certain conditions relating to Non-Payment Election, Non-Payment Event or the Mudaraba End Date occurring, one Business Day prior to each Mudaraba Profit Distribution Date, on the basis of a constructive liquidation of the relevant Mudaraba by the Mudareb, calculate and distribute the Mudaraba Profit for the relevant Mudaraba Profit Distribution Period (if any) between the Sukukholders' Agent (for and on behalf of the Sukukholders) and the Mudareb in accordance with the following profit-sharing ratio:

(i) the Sukukholders (as Rab-al-Maal), 90 per cent.; and

(ii) the Mudareb, 10 per cent.

If, in respect of a Mudaraba, the Mudareb elects (at its sole discretion but subject to the terms of the Master Mudaraba Agreement) to make a payment of the Mudaraba Profit or the Final Mudaraba Profit is otherwise payable pursuant to the Master Mudaraba Agreement and Sukukholders' Agent's share of the Mudaraba Profit (the "**Rab-al-Maal Mudaraba Profit**") or the Sukukholders' Agent's share of the Final Mudaraba Profit (the "**Rab-al-Maal Final Mudaraba Profit**") (as applicable) payable to Sukukholders' Agent (for and on behalf of the Sukukholders) on any Mudaraba Profit Distribution Date, or the Mudaraba End Date in the case of the Rab-al-Maal Final Mudaraba Profit, is (1) greater than the then applicable Periodic Distribution Amount, the amount of any excess shall be credited to a reserve account (in respect of each Mudaraba, the "**Mudaraba Reserve**") and the Rab-al-Maal Mudaraba Profit or the Rab-al-Maal Final Mudaraba Profit (as applicable) payable to Sukukholders' Agent (for and on behalf of the Sukukholders) shall be reduced accordingly; or (2) less than the then applicable Periodic Distribution Amount, the Mudareb:

(i) first, shall utilise any amount standing to the credit of the Mudaraba Reserve to make payments to, or to the order of, the Sukukholders in order to cover such shortfall; and

(ii) second, may (at its sole discretion) elect (but shall not be obliged) to make one or more payments from its own cash resources in order to cover such shortfall.

If, in respect of a Mudaraba, the Mudareb elects to make payments from its own cash resources, it shall be entitled to recover such amounts on the relevant Mudaraba End Date from the Excess Liquidation Proceeds (as defined below) of that Mudaraba but not, for the avoidance of doubt, from the Sukukholders.

The Mudaraba Reserve for each Mudaraba shall be recorded by the Mudareb through a book-entry ledger account; will not be required to be maintained in a separate defined bank account; and shall be reflected in the relevant Mudaraba Accounts; and the Mudareb shall (at its sole discretion) be entitled to invest amounts standing to the credit of a Mudaraba Reserve in the same manner as it invested the related Mudaraba Capital in accordance with the Investment Plan.

The Master Mudaraba Agreement does not require the Mudareb to make payments to the Sukukholders' Agent of amounts equal to, or sufficient to enable the Sukukholders' Agent to pay, any amounts due under the Certificates of any Series irrespective of the amount of Mudaraba Profit generated by any Mudaraba Assets at the relevant time or (as the case may be) irrespective of the amount of Dissolution Mudaraba Capital generated by any liquidation of a Mudaraba, and the Sukukholders' Agent acknowledges in the Master Mudaraba Agreement that there is no guarantee of any return from the Mudaraba Assets.

If a Non-Payment Event occurs in respect of a Series, the Mudareb will be prohibited from paying the Final Mudaraba Profit (and, as a result, the Rab-al-Maal Final Mudaraba Profit) on the Mudaraba End Date or the Mudaraba Profit (and, as a result, the Rab-al-Maal Mudaraba Profit) on a relevant Mudaraba Profit Distribution Date, in each case in respect of the Mudaraba of the relevant Series. The Mudareb may in its sole discretion elect that the Rab-al-Maal Mudaraba Profit (but not the Rab-al-Maal Final Mudaraba Profit) (in whole or in part) will not be paid on any Mudaraba Profit Distribution Date (being a **Non-Payment Election**).

If the Issuer makes a Non-Payment Election or a Non-Payment Event occurs, then the Mudareb shall: (i) in the case of a Non-Payment Election, not later than seven calendar days prior to such event; and (ii) in the case of a Non-Payment Event, as soon as practicable thereafter but in any case (except where the relevant Non-Payment Event occurs during such period) no later than five Business Days prior to the relevant Mudaraba Profit Distribution Date or Mudaraba End Date, as the case may be, give notice to the Sukukholders' Agent in accordance with the Master Mudaraba Agreement, providing details of the Non-Payment Election (including, if relevant, details of any partial payment to be made) or Non-Payment Event. However, any failure to provide such notice will not invalidate the cancellation of the relevant payment of the Relevant Rab-al-Maal Mudaraba Profit Amount or Periodic Distribution Amount. In the absence of notice of such Non-Payment Election or Non-Payment Event, as the case may be, having been given, the fact of non-payment of the Relevant Rab-al-Maal Mudaraba Profit Amount (or any part thereof) on the relevant Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be) shall be evidence of the occurrence of a Non-Payment Election or Non-Payment Event, as the case may be. Sukukholders and the Sukukholders' Agent shall have no right to require payment of any Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit (or any part thereof, as applicable) not paid as a result of either (in the case of Rab-al-Maal Mudaraba Profit only) a Non-Payment Election or (in the case of Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit) a Non-Payment Event (in each case irrespective of whether notice of such Non-Payment Election or Non-Payment Event has been given) and any such non-payment in whole or in part, as applicable, of Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit or a Periodic Distribution Amount in such circumstance shall not constitute an Event of Default. The Mudareb shall not have any obligation to make any subsequent payment in respect of any such unpaid profit (or any part thereof, as applicable) (whether from its own cash resources, from the Mudaraba Reserve or otherwise). Any profit from the Mudaraba which is not paid as Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit to the Sukukholders in such circumstances shall be credited by the Mudareb to the Mudaraba Reserve and the Mudareb shall be entitled to re-invest such profit standing to the credit of the Mudaraba Reserve in the same manner as it invested the Mudaraba Capital in accordance with the Investment Plan.

If any amount of Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit payable in respect of any Series is not paid as a consequence of a Non-Payment Election or a Non-Payment Event, as the case may be, then from the date of such Non-Payment Election or Non-Payment Event (the "**Dividend Stopper Date**"), the Mudareb will be prohibited, so long as any of the Sukuk of any Series are outstanding, from undertaking any of the payments outlined in Condition 7.4 (Dividend and Redemption Restrictions) (which include, but are not limited to, declaring or paying distributions or dividends, declaring or paying profit and directly or indirectly redeeming, purchasing cancelling, reducing or otherwise acquiring any Ordinary Shares in the Issuer) until: (i) the next following payment of Rab-al-Maal Mudaraba Profit; or (ii) (as the case may be) payment of the Rab-al-Maal Final Mudaraba Profit, in each case following the Dividend Stopper Date, has been made in full (or an amount equal to the same has been duly set aside or provided for in full for the benefit of the Sukukholders of the relevant Series affected by such Non-Payment Election or a Non-Payment Event in accordance with the Master Mudaraba Agreement).

The Master Mudaraba Agreement provides that if a Non-Viability Event occurs at any time on or after the Issue Date of the first Tranche issued under a Series and prior to the Effective Date, a Write-down (in whole or in part, as applicable) will take place in accordance with the terms of the Master Mudaraba Agreement on the Non-Viability Event Write-down Date, In the case of a Write-down resulting in:

(a) the reduction in full of the Aggregate Nominal Amount of all Sukuk then outstanding, the Master Mudaraba Agreement will be automatically terminated with effect from the Non-Viability Event Write-down Date and the Sukukholders and Sukukholders' Agent shall not be entitled to any claim for any amounts in connection with the Mudaraba Assets of any Series.

(b) the partial reduction of the Aggregate Nominal Amount of each Sak then outstanding under a Series, the Mudaraba Capital of that Series shall be reduced by the relevant Write-down Amount with effect from the Non-Viability Event Write-down Date and the Sukukholders of the relevant Series and Sukukholders' Agent shall not be entitled to any claim for any amounts in connection with the Mudaraba Assets of that Series that relate to the proportion of the Mudaraba Capital of that Series that has been reduced.

Subject to certain conditions as set out in the Mudaraba Agreement, the Mudareb may (in its sole discretion) liquidate the Mudaraba of a Series in whole, but not in part, on the basis of a final constructive liquidation of the Mudaraba for the purposes of (i) firstly, returning the relevant Mudaraba Capital ("**the Dissolution Mudaraba Capital**") to the Sukukholders of the relevant Series; and (ii) secondly, (to the extent such amount is payable pursuant to the terms of the Master Mudaraba Agreement) paying the Rab-al-Maal Final Mudaraba Profit to the Sukukholders of the relevant Series (the aggregate of (i) and (ii) being the "**Required Liquidation Amount**") on the Mudaraba End Date, in the following circumstances:

(a) on the First Call Date of the relevant Series or any Mudaraba Profit Distribution Date of that Series thereafter by giving not less than 10 nor more than 15 days' prior notice to the Sukukholders' Agent (the "**Issuer Call Option**"); or

(b) on any date, on or after the Issue Date (whether or not a Periodic Distribution Date), by giving not less than 10 nor more than 15 days' prior notice to the Sukukholders' Agent:
   (i) upon the occurrence of a Tax Event; or
   (ii) upon the occurrence of a Capital Event.

Any final constructive liquidation in whole under the Master Mudaraba Agreement will be subject to the Dissolution Mudaraba Capital of the relevant Series being equal to the Mudaraba Capital of the relevant Series (the "**Liquidation Condition**"). If the Mudareb, in its sole discretion, proposes to exercise its option to liquidate the Mudaraba of a Series in whole, but not in part, on the basis of a final constructive liquidation of that Mudaraba in accordance with the terms of the Master Mudaraba Agreement, and the relevant Dissolution Mudaraba Capital which would be generated upon such liquidation is less than the Mudaraba Capital of that Series, the Bank (as Mudareb) will, if it were to proceed with an actual liquidation, be in breach of the Liquidation Condition and as a result of such breach the Sukukholders of the relevant Series would suffer a loss in an amount equal to the difference between the Mudaraba Capital and the Dissolution Mudaraba Capital (the "**Shortfall**"). In the event that there is or will be a Shortfall, the Mudareb shall (in its sole discretion) either:

(a) continue investing the Dissolution Mudaraba Capital of the relevant Series in the Mudaraba of that Series, and accordingly the Mudareb shall not proceed with the final constructive liquidation of that Mudaraba and as a result no distribution of the relevant Required Liquidation Amount shall occur; or

(b) proceed with the final constructive liquidation of the relevant Mudaraba and indemnify the Sukukholders of the relevant Series in respect of the Shortfall.

If the Mudareb gives a notice of liquidation pursuant to the Issuer Call Option or following the occurrence of a Tax Event of Capital Event in respect of the Mudaraba of a Series and, after giving such notice but prior to the relevant redemption date specified in such notice, a Non-Viability Event occurs, the relevant notice of liquidation shall be automatically rescinded and shall be of no force and effect, the Mudaraba of that Series will not be liquidated on the scheduled date of liquidation and instead a Write-down shall occur in respect of that Series in accordance with the terms of the Master Mudaraba Agreement (as outlined above). Following the occurrence of a Non-Viability Event, the Mudareb shall not be entitled to give a notice of liquidation in respect of the Issuer Call Option or following the occurrence of a Tax Event of Capital Event.

The Mudaraba of a Series will automatically be liquidated in whole but not in part if an Event of Default occurs in relation to that Series and a Dissolution Notice is delivered pursuant to Condition 11.1 (Events of Default) and the Sukukholders' Agent may at its discretion, and shall if requested by the relevant Sukukholders of the relevant Series in accordance with Condition 11.2(a), as applicable, take any action specified in Condition 11.2(a) (Proceedings for Winding-up), and the Mudareb acknowledges that the Sukukholders of the relevant Series shall in such case be entitled to claim for all amounts in respect of the Mudaraba Capital, Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit and any other payments in respect of the relevant Series due in accordance with the terms of the Master Mudaraba Agreement in such winding-up, bankruptcy, dissolution or liquidation (or analogous event), **provided that** certain conditions relating to subordination, Non-Payment Event and Non-Payment Election contained in the Master Mudaraba Agreement are satisfied.

If, following the liquidation of a Mudaraba, the relevant Required Liquidation Amount payable to or to the order of the Sukukholders on the Mudaraba End Date of the relevant Series is greater than the then applicable Dissolution Distribution Amount of that Series, the amount of any excess (the "**Excess Liquidation Proceeds**") shall be credited to the Mudaraba Reserve of the relevant Series and the relevant Required Liquidation Amount payable to or to the order of the Sukukholders shall be reduced accordingly.

After payment in full of the amounts due and payable to or to the order of the Sukukholders pursuant to the terms of the Master Mudaraba Agreement, neither the Sukukholders' Agent nor any Sukukholder will have any further right or claim to any assets of the Mudareb in respect of the relevant Series.

The Mudareb shall not be responsible for any losses to the Mudaraba Capital of any Series suffered by the Sukukholders or the Sukukholders' Agent unless such losses are caused by: (i) the Mudareb's breach of the Master Mudaraba Agreement; or (ii) the Mudareb's gross negligence, wilful misconduct or fraud.

Subject to the Mudareb: (A) obtaining the prior written consent of the Financial Regulator (except to the extent that the Financial Regulator no longer so requires); and (B) being in compliance with the Applicable Regulatory Capital Requirements at the time of purchase, the Mudareb or any of its Subsidiaries, may purchase the Sukuk at such price(s) and upon such other conditions as may be agreed upon between the Mudareb or the relevant Subsidiary (as the case may be) and the relevant Sukukholder(s). Upon any such purchase, the Mudareb shall deliver such Sukuk to the Registrar for cancellation and, upon such cancellation, the Mudaraba Capital of the relevant Series shall be reduced by the face amount of the Sukuk so cancelled.

The Mudareb shall exercise its rights, powers and discretions as arise under the Master Mudaraba Agreement (together with any other incidental rights, powers, authorities and discretions), and shall take such action as it deems appropriate, in each case:

(a) in accordance with material applicable laws

(b) with the degree of skill and care that it would exercise in respect of its own assets; and

(c) in a manner that is not repugnant to *Shari'a*.

The Mudareb will agree in the Master Mudaraba Agreement that all payments by it to or to the order of the Sukukholders of any Series shall be made free and clear of and without any withholding or deduction for any taxes imposed, levied, collected, withheld or assessed by or on behalf of the Kingdom or any political sub-division or authority thereof or therein having the power to tax ("**Taxes**"), unless such withholding of Taxes is required by law. In such event, and/or if Additional Amounts are payable by the Bank in respect of the Sukuk of any Series in accordance with Condition 12 (Taxation), the Issuer will pay such Taxes and/or amounts equal to such Additional Amounts by credit transfer in Saudi Riyals for same day value into the Transaction Account of the relevant Series so that the full amount which otherwise would have been due and payable to or to the order of the relevant Sukukholders, and/or in respect of the relevant Sukuk, is received in the relevant Transaction Account, **provided that** no such Additional Amount shall be payable to any Sukukholder who is not, or at any time ceases to be, a Qualified Person.

Master Declaration of Agency

The Master Declaration of Agency will be entered into on 20 October 2022 between the Issuer and the Sukukholders' Agent and will be governed by the laws and regulations of Saudi Arabia.

Pursuant to the Master Declaration of Agency, each Sukukholder, by completing an Investor Application Form or by subscribing to, acquiring or holding Sukuk, shall be deemed:

(a) to have appointed the Sukukholders' Agent as its agent in relation to the relevant Series with full capacity, powers, duties and authority in relation to the Sukuk on the terms set out in the Master Declaration of Agency, each relevant Supplemental Declaration of Agency and the Conditions; and

(b) to have ratified and accepted the entry by the Sukukholders' Agent into the Transaction Documents to which it is a party and performance by the Sukukholders' Agent of its obligations thereunder; and

(c) to have given an irrevocable and unconditional instruction requiring the Sukukholders' Agent to, on the date fixed for payment of the Dissolution Distribution Amount of a Series, upon satisfaction of the Relevant Obligations, transfer and/or assign at any time all or part of the remaining portion of the Sukuk Assets of the relevant Series to the Issuer (for its own account).

In relation to each Series, the Sukukholders' Agent shall:

(a) accept its appointment as agent of the Sukukholders on the terms set out in the Master Declaration of Agency, each Supplemental Declaration of Agency and the Conditions;

(b) agree to comply with the terms of the Master Declaration of Agency and the other Transaction Documents; and

(c) declare, and the Issuer hereby acknowledges, that, with effect from the first Issue Date with respect to a Series, the Sukukholders' Agent holds the benefit of the relevant Sukuk Assets of that Series as agent of the relevant Sukukholders pro rata according to the share of the aggregate nominal amount of the Sukuk of that Series held by each Sukukholder, in accordance with the terms set out in the Master Declaration of Agency.

Subject to the terms of the Master Declaration of Agency, the Sukukholders' Agent further agrees to perform the duties specified for it as Sukukholders' Agent in the Conditions.

Subject to Condition 10 (Write-down at the Point of Non-Viability), the Issuer shall covenant and undertake with the Sukukholders' Agent that, so long as any Sukuk remains outstanding, to the order of the Sukukholders' Agent, it shall pay the Periodic Distribution Amounts and the Dissolution Distribution Amount of each Series, as and when each payment shall be required to be made in accordance with the Applicable Final Terms and the Conditions, and shall make such payments in the manner specified in the Applicable Final Terms, the Conditions and the Payment Administration Agreement.

The Issuer shall further covenant and undertake with the Sukukholders' Agent to comply with those provisions of the Master Declaration of Agency, the other Transaction Documents, the Applicable Final Terms and the Conditions which are expressed to be binding on it and to perform and observe the same.

The Master Declaration of Agency shall specify, including, without limitation, that in relation to each Series:

(a) if an Event of Default has occurred and is continuing, the Sukukholders' Agent may, by notice in writing to the Issuer and the Payment Administrator, require the Payment Administrator, until notified in writing by the Sukukholders' Agent to the contrary and so far as permitted by applicable law, to act thereafter as its agent in accordance with the Payment Administration Agreement;

(b) the Sukukholders' Agent may, without any consent or sanction of the Sukukholders and without prejudice to its rights in respect of any subsequent breach, condition, event or act, from time to time and at any time, but only if and in so far as in its opinion the interests of the Sukukholders shall not be materially prejudiced thereby, authorise or waive, on such terms and conditions (if any) as shall seem expedient to it, any breach or prospective breach of any of the covenants or provisions contained in the Master Declaration of Agency, each relevant Supplemental Declaration of Agency, any other Transaction Document, the Applicable Final Terms or the Conditions or determine that any Event of Default or Potential Event of Default shall not be treated as such for the purposes of the Master Declaration of Agency, any relevant Supplemental Declaration of Agency, the Applicable Final Terms and the Conditions;

(c) the Sukukholders' Agent may from time to time and at any time without the consent or sanction of the Sukukholders concur with the Issuer in making any modification to the Master Declaration of Agency, the Applicable Final Terms, the Conditions or any other Transaction Documents which, in the opinion of the Sukukholders' Agent, it may be proper to make provided the Sukukholders' Agent is of the opinion that:

(i) such modification is not materially prejudicial to the interests of the Sukukholders; or

(ii) such modification is of a formal, minor or technical nature or made to correct a manifest error or to comply with mandatory provisions of law (including but not limited to as a consequence of any Applicable Statutory Loss Absorption Regime becoming effective after the Issue Date which imposes requirements with respect to the Sukuk and the Sukuk Assets which are not expressly provided for in Condition 10 (Write-down at the Point of Non-Viability) and/or the related provisions contained in the Transaction Documents); and

if and to the extent that the Issuer exercises its rights under Condition 16 (Further Issues) to issue additional Sukuk in respect of a Series, on the date upon which any additional Sukuk in respect of a Series are created and issued pursuant to the provisions of clause 4.6(a) (Additional Sukuk) of the Master Declaration of Agency, each of the Issuer and the Sukukholders' Agent will execute a Declaration of Commingling of Assets for and on behalf of the holders of the existing Sukuk and the holders of such additional Sukuk so issued, agreeing and declaring that the relevant Mudaraba Assets (in respect of the issuance of the additional Sukuk) and the Mudaraba Assets as in existence immediately prior to the creation and issue of the additional Sukuk are commingled and shall collectively comprise part of the Sukuk Assets for the benefit of the holders of the existing Sukuk and the holders of such additional Sukuk pro rata according to the aggregate nominal amount of Sukuk held by each Sukukholder, in accordance with the Master Declaration of Agency.

TAXATION AND ZAKAT

The following is a general description of certain Zakat/tax considerations relating to the Sukuk issued under the Base Prospectus and it is only summary does not purport to be a comprehensive description of all the tax/Zakat considerations relating to the this Base Prospectus and is not intended as tax/Zakat advice which may be relevant to a decision to subscribe for, purchase, own or dispose of the Sukuk and does not purport to deal with the tax/Zakat consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules. Prospective purchasers of the Sukuk should consult their tax advisers as to the consequences under the tax laws of the country in which they are resident for tax purposes of acquiring, holding and disposing of the relevant Sukuk and receiving payments under those Sukuk. This summary is based upon the laws in force in the Kingdom as in effect on the date of this Base Prospectus and is subject to any change in laws that may take effect after such date, which changes could be made on a retroactive basis.

Income Tax

According to the Income Tax Law issued under Royal Decree No. M/1 dated 15/1/1425 in the Hijri calendar (corresponding to 6 March 2004) and its Implementing Regulations issued under Ministerial Resolution No. 1535 dated 11/6/1425 in the Hijri calendar (corresponding to 11 August 2004), as amended from time to time (the "**Income Tax Law**"), a resident company in the Kingdom with foreign (i.e., non-GCC) ownership (on its foreign partner's (shareholder's) share) and a non-resident who carries out business in the Kingdom through a Permanent Establishment (as defined below, other than a Permanent Establishment of GCC persons that meets the conditions set out under Article 2(4) of the Zakat Regulations) are subject to corporate income tax in the Kingdom at the rate of 20 per cent. (if not engaged in oil and hydrocarbon production activities). Resident companies wholly-owned by GCC Persons (in addition to persons subject to Zakat listed below under the section entitled "*Zakat*") are subject to Zakat instead of corporate income tax. Resident companies owned jointly by GCC and non-GCC Persons are subject to corporate income tax in respect of the share of their taxable profit attributable to the ownership (legal or beneficial) percentage held by non-GCC Persons and Zakat on the ownership (legal or beneficial) percentage held by GCC Persons.

Shares held directly by GCC Persons or via other GCC companies (where the shareholding structure does not fall outside of the GCC) in a resident company are subject to Zakat and not income tax. However, shares of resident capital company owned either directly or indirectly by non-GCC is subject to Corporate Income Tax. In determining the tax/Zakat profile of a Saudi tax/Zakat resident company, the Zakat, Tax and Customs Authority ("**ZATCA**") applies a "look-through" approach to determine whether the up-stream shareholding structure at any point exists outside of the GCC (i.e. look through the ownership structure until the ultimate owner).

Non-GCC natural persons resident in the Kingdom who are not performing commercial activities in the Kingdom (as defined in Chapter 1—Article 1 of the Income Tax Law, and Chapter 1—Article 1 of the Zakat Regulations, as defined below) are not currently subject to income tax or Zakat in the Kingdom according to existing practices of ZATCA (as compliance/ administration of Income Tax Law is not currently enforced by ZATCA on individuals).

Zakat

Zakat is a religious obligation imposed on Muslims under Shari'a rules to pay a fixed percentage of their wealth for the relief of poverty. In the past, Zakat has been imposed based on various Fatwas issued by the religious scholars based on Shari'a principles and also based on the various circulars issued by the ZATCA from time to time. In 2017, Zakat implementing regulations of the Kingdom were issued by the Ministry of Finance under Ministerial Resolution No. 2082 dated 01/06/1438H (corresponding to 28 February 2017G) (the "**Zakat Regulations**").

The Zakat Regulations were effective from the date of their issuance and superseded all prior directives, resolutions, instructions and circulars issued by the ZATCA. Subsequently, in 2019, the Ministry of Finance issued new Zakat implementing regulations under Ministerial Resolution No. 2216 dated 07/07/1440H (corresponding to 14 March 2019G) (the "**New Zakat Regulations**"). The New Zakat Regulations came into effect (and replaced the existing Zakat Regulations issued in 2017) for financial years starting from 1 January 2019. According to the New Zakat Regulations, Zakat is assessed on Saudi/GCC nationals or entities owned by Saudi/GCC nationals carrying out business activities in the Kingdom.

The rules governing the calculation of Zakat are complex. Separate rules are applicable for the calculation of Zakat by Zakat payers who are engaged in the Kingdom in financing activities (licensed by the Saudi Arabian Monetary Authority) and Zakat payers who are engaged in the Kingdom in non- financing activities. This "*Taxation*" section broadly covers the Zakat consequences of investment in Sukuk by the investors who are engaged in non-financing activities in the Kingdom.

As per the New Zakat Regulations, a Permanent Establishment of a GCC person in the Kingdom is subject to Zakat (and not corporate income tax) provided at least two of the following three conditions are met in respect of central management of such Permanent Establishment (as set out under Chapter 1 - Article 2(4)):

(a) board of directors' ordinary meetings which are held regularly and where main policies and decisions relating to management and running of the Permanent Establishment's business are held and made in the Kingdom;

(b) senior executive decisions relating to the Permanent Establishment's functions such as executive directors and deputies' decisions are made in the Kingdom; and

(c) the Permanent Establishment's business is mainly (i.e. 50 per cent. or more of its revenues) generated from the Kingdom.

Zakat is applied at 2.5 per cent. of the higher of "net adjusted income" or the "Zakat base". Under the new Zakat Regulations, Zakat on "Zakat base" is computed at the rate of 2.5778 per cent. for Zakat payers who follow the Gregorian year as their accounting period. However, if Zakat is computed on "net adjusted profits", then the rate remains at 2.5 per cent.

GCC individuals resident in the Kingdom for tax/Zakat purposes should in principle be subject to Zakat in the Kingdom if they carry out activities in the Kingdom.

Special Zakat Rules for Financing Activities

Special Zakat rules were issued pursuant to Ministerial Decision No. 2215 dated 07/07/1440H (corresponding to 14 March 2019G) (Zakat Calculation for Financing Companies) which are applicable to resident Zakat payers engaged in financing activities, such as banking and finance lease activities, and which are licenced by SAMA. These Zakat rules are based on the attributable method in computing Zakat, by calculating the Zakatable assets and sources of funds subject to Zakat which depend on the residual maturity profile of all assets and liabilities.

The rules provide for minimum and maximum cap amounts for the Zakat base depending on the net profit or net loss of the Zakat payer as per their financial statements:

	If the Zakat payer has reported net profit(1)	If the Zakat payer has not reported net profit(2)
Minimum cap	4 times net profit	4 times of 10 per cent. of gross profit
Maximum cap	8 times net profit	8 times of 10 per cent. of gross profit

(1) Net profit means profit before provision for Zakat.

(2) If there is no gross profit, the minimum and maximum caps shall not apply.

Withholding Tax

Saudi Arabian resident persons and Permanent Establishments of non-resident entities in the Kingdom are required to withhold taxes on payments to non-residents, including GCC residents, if such payment is from a source of income in the Kingdom. Withholding tax rates vary from 5 per cent. to 20 per cent. depending on the nature of the underlying payment. Rental charges and financing fees (akin to interest) paid to non-residents attract a 5 per cent. withholding tax.

Withholding tax is imposed on payments against services and not on goods. Services are defined to mean any work performed for compensation except for the purchase and sale of goods or any other properties.

Withholding tax is reduced or eliminated pursuant to the provisions of an applicable double tax treaty signed between a non-resident's country of tax residence and the Kingdom. The application of double tax treaties in the Kingdom may take place under one of two methods: (i) a refund mechanism which requires the payor to subject the relevant payment to withholding tax based on the domestic tax regulations and then submit a refund request to the ZATCA based on the exemptions and benefits available based on the provisions of the relevant double tax avoidance treaties; or (ii) the upfront application of double tax avoidance treaties which provides for the possibility of the payor to not subject the relevant payment to withholding tax in the first place. Both mechanisms require the beneficiary/recipient to provide certain documents and forms to the ZATCA (such as, among others, Form Q7/B issued by the ZATCA, i.e. a tax residency certificate).

Income earned by Sukukholders from their investment in the Sukuk in the nature of profit is akin to a financing activity and as such, should be considered as a Loan Charge as per Article 5(1) of the By-Laws to the Income Tax Regulation. A Loan Charge paid to a non-resident attracts 5 per cent. withholding tax.

Capital Gains Tax (CGT)

According to Article 2 of the Income Tax Law, Persons Subject to Taxation (as defined below) include non- Residents in the KSA with taxable income generated from sources in the Kingdom and without a Permanent Establishment for tax purposes in the Kingdom (other than Permanent Establishment of a GCC person as defined under Article 2 of the new Zakat regulations, the treatment of which is discussed in "—*Zakat*" above).

Further, Article 1(2) of the By-Laws to the Income Tax Law defined the applicable tax on such a Person as to being subject to the following:

(a) WHT, if the income generated is stipulated under Article 68 of the Income Tax Law (as discussed in "— *Withholding Tax*" and "—*Certain tax and Zakat implications for Sukukholders—Sukukholders who are not Resident in KSA*"); and

(b) capital gains tax, if the income is derived from disposal of fixed and traded assets, or from disposal of shares in a resident company under the general provisions of the Income Tax Law.

Based on the above, if the sale of the Sukuk by the Sukukholders is considered a source of income in the Kingdom, then the related income (or capital gain) will be subject to 20 per cent. corporate income tax in the Kingdom according to the rules for computation of capital gain tax provided in the Income Tax Law for non-Residents.

Capital gains realised from disposal of securities (such as the Sukuk) traded inside or outside the Kingdom are exempt from tax in the KSA if the following conditions are met:

(a) The disposal is carried out in accordance with the regulations of the Tadawul or the disposal is carried out outside of the KSA, but such securities are also traded on Tadawul; and

(b) The investor did not hold the securities before the effective date of the Income Tax Law (i.e., 30 July 2004).

Capital gains realised from disposal of the Sukuk by: (a) a resident Sukukholder; (b) a non-resident Sukukholder with a Permanent Establishment for tax purposes (if such gain is attributed to such Permanent Establishment's activities); and (c) a Permanent Establishment of a Sukukholder that is a GCC person as defined under Article 2 of the New Zakat regulations (if such gain is attributed to the Permanent Establishment's activities) will not be subject to capital gains tax. However, such gains will be included in the total income of such Sukukholders subject to corporate income tax or Zakat in the Kingdom.

Certain tax and Zakat implications for Sukukholders GCC Sukukholders who are Resident in the Kingdom

Sukukholders who are GCC persons and resident in the Kingdom are not subject to Saudi Arabian tax, whether by withholding or direct assessment, in respect of any payment or gain realised in respect of the Sukuk. However, such Sukukholders could be subject to Zakat if the ownership of the Sukuk is attributable to their business activities. This summary does not consider the extent to which such Sukukholders would be liable to Zakat as a consequence of acquiring, holding or disposing of its Sukuk. Under the Zakat regulations which are in effect as of the date of this Base Prospectus in the Kingdom, long-term investments in Sukuk are not deductible in calculating the net Zakat base of the investor. An exception to deduction is available to resident Sukukholders who are covered under Ministerial Decision No. 2215 07/07/1440H (corresponding to 14 March 2019G) (Zakat Calculation for Financing Companies) whereby such Sukukholders can claim deduction of long term sukuk as non-zakatable assets.

A natural person with a permanent residence in the Kingdom

A natural person who is resident in the Kingdom will not be subject to Zakat and tax, whether by withholding or direct assessment, in respect of payments in the nature of profits or gains realised in respect of the Sukuk, provided the ownership of the Sukuk is not attributable to any business activities conducted by the natural person. If such income is connected to such Sukukholders' business activity in the Kingdom, such amounts generally will be subject to Zakat in the Kingdom.

A legal entity established under the law of a GCC country other than the Kingdom, with a Permanent Establishment in the Kingdom

A legal entity of a GCC country having a Permanent Establishment in the Kingdom (i.e. a branch of a GCC legal entity) will be subject to Saudi Arabian corporate tax on the income of the Permanent Establishment, including any income from the Sukuk, which is attributable to a Permanent Establishment. All payments in the nature of profit (except capital gains arising from a disposal of securities traded on the Tadawul) in respect of the Sukuk will be part of such Sukukholder's gross income, if the payment is attributable to the Permanent Establishment. The gross income, less deductible costs and certain other adjustments, will be subject to income tax at the current rate of 20 per cent.
Furthermore, any transfer of the after tax profit to the head office of the Permanent Establishment will be considered to be a distribution of profit and will be subject to a further 5 per cent. withholding tax.

Non-GCC Sukukholders who are Resident in the Kingdom

Sukukholders who are non-GCC persons (excluding natural persons) resident in the Kingdom, defined in Article 3 of the Income Tax Regulation, will be subject to corporate tax.

All payments in the nature of profit (except capital gains arising from a disposal of securities traded on the Tadawul) in respect of the Sukuk will be part of the Sukukholder's gross income. The gross income, less deductible costs and certain other adjustments, will be subject to corporate tax at the current rate of 20 per cent.

Sukukholders who are non-GCC natural persons and resident in the Kingdom who are not performing commercial activities in the Kingdom (as defined in Chapter 1—Article 1 of the Income Tax Law) are not currently subject to Saudi Arabian income tax on any interest payment received or gain realised in respect of the Sukuk, according to existing practices of ZATCA (as compliance/administration of Income Tax Law is not currently enforced by ZATCA on individuals).

Sukukholders who are Non-resident in the Kingdom

Sukukholders, either natural persons or legal entities, who are not resident in the Kingdom (whether such Sukukholders are Saudi Arabian nationals or non-Saudi Arabian nationals, including Sukukholders resident in the GCC) should be subject to Saudi Arabian withholding tax on any payments received by them from the Issuer, in respect of the Sukuk, on the basis that such payments are received from, prima facie, a Saudi resident entity which is incorporated in the Kingdom.

Application of double tax treaties in the Kingdom may take place under one of two methods: (i) a refund mechanism which requires the payor to subject the relevant payment to withholding tax after which a refund request of the withholding tax may be submitted to ZATCA; or (ii) application of double tax treaties which provides for the possibility of the payor not subjecting the relevant payment to withholding tax. Both mechanisms require the beneficiary to provide certain documents and forms to ZATCA (such as a tax residency certificate).

For completeness, as the payment of profits (if any) on the Sukuk will be made through the Payment Administrator (as defined in the Conditions), some Sukukholders (subject to tax advice sought for specific cases and in relevant jurisdictions by the Sukukholders) may not be able to prove to their local tax authorities that withholding tax has been applied to interest payments, and therefore may not be able to obtain the benefit of any applicable double tax treaty relief or credit for tax withheld.

Notwithstanding the above, pursuant to the terms of the Sukuk, to the extent that any withholding tax is deducted, the Issuer will generally be obligated to pay such additional amounts as will result in receipt by the Sukukholders, after such withholding or deduction, of such amounts as would have been received by them had no such withholding or deduction been required. Sukukholders who are non-residents with a Permanent Establishment in the Kingdom (as defined in Article 4 of the Income Tax Regulation) will be subject to Saudi Arabian income tax on a Permanent Establishment's income, including income from the Sukuk which is attributable to a Permanent Establishment. Furthermore, pursuant to Article 63(6) of the Implementing Regulations of the Income Tax Regulation, a Permanent Establishment will be subject to a withholding tax at the rate of 5 per cent. on remittance of after tax profits / deemed profit to its head office.

General

Natural persons who are Sukukholders at the time of their death are generally not subject to inheritance or other taxes of a similar nature in the Kingdom, although distribution on inheritance is considered a disposal of the asset for tax purposes. Sukukholders will not be deemed to be resident, domiciled or carrying on business in the Kingdom solely by reason of holding any Sukuk.

For the purposes of this summary:

"**Article 63 (6) of the income tax law's implementing regulations**" is as follows:

"**Dividends**" means any distribution by a resident company to a non-resident shareholder, and any profits transferred by a permanent establishment to related parties; the following should be considered:

- Dividends by companies engaged in natural gas investment, oil and hydrocarbons are not subject to withholding tax;
- Partial or full liquidation of a company is deemed to be dividends for payments in excess of paid- in capital; and
- Subjection of a distributing company to income tax shall not preclude imposition of withholding tax on its dividends";

"**GCC person**" means: (a) a citizen of any of the member countries of the Cooperation Council of the Arab States of the Gulf (namely, the Kingdom, the United Arab Emirates, the Kingdom of Bahrain, the Sultanate of Oman, the State of Qatar and the State of Kuwait); and (b) any legal entity owned by GCC citizens and established under the laws of a GCC country with no non-GCC entity in the chain of ownership between GCC citizens and the legal entity;

"Income Tax Regulation" means the Income Tax Regulation issued under Royal Decree No. M/1 dated 15/01/1425H (corresponding to 6 March 2004G);

"**Permanent Establishment**" means a permanent enterprise of a non-resident in the Kingdom which represents a permanent place for the non-resident's activity where it conducts the activity either fully or partly; this also includes the activities conducted by the non-resident through a dependent agent (dependent agent having the meaning specified in the Income Tax Regulation). A non-resident carrying out an activity in the Kingdom through a licensed branch (as defined in Article 4(b)4 of the Income Tax Regulation) is considered to have a Permanent Establishment in the Kingdom;

“**Persons Subject to Taxation**” as defined in Article 2 of the Income Tax Regulation, are: a resident capital company with respect to the shares owned directly or indirectly by non-Saudi partners, as well as the shares owned directly or indirectly by persons working in the production of oil and hydro carbonates. Excluding shares owned directly or indirectly by persons working in the production of oil and hydro carbonates in resident capital companies listed in the Saudi capital markets and the shares owned directly or indirectly by these companies in capital companies;

(a) a resident non-Saudi natural person who carries on business activities in the Kingdom;

(b) a non-resident who carries on business activities in the Kingdom through a Permanent Establishment;

(c) a non-resident with other income subject to tax from sources within the Kingdom;

(d) a person engaged in the field of natural gas investment; and

(e) a person engaged in the production of oil and hydrocarbon materials; and

A person is “**resident**” in the Kingdom (as defined in Article 3 of the Income Tax Regulations) as follows:

(a) A natural person is considered a resident in the Kingdom for a taxable year if he meets either of the two following conditions:

  (i) he has a permanent place of abode in the Kingdom and is physically residing in the Kingdom for a period, in aggregate, of not less than 30 days during the taxable year; or

  (ii) he is physically residing in the Kingdom for a period of not less than 183 days in the taxable year.

For the purposes of this paragraph, residence in the Kingdom for part of a day is considered residence for the whole day, except in the case of a person in transit between two points outside the Kingdom.

A company is considered resident in the Kingdom during the taxable year if it meets either of the following conditions:

  (i) it is formed in accordance with the Companies Regulations; or

  (ii) its central management is located in the Kingdom.

SUBSCRIPTION AND SALE

Programme Agreement

The Dealer(s) have entered into a programme agreement dated 20 October 2022 (as the same may be amended, supplemented or novated, the "**Programme Agreement**") with the Issuer. Pursuant to the Programme Agreement, the Issuer has agreed with the Dealer(s) a basis upon which the Dealer(s) may from time to time agree to procure persons to purchase Sukuk issued under the Programme. Any such agreement will extend to those matters stated under "*Terms and Conditions of the Sukuk*". The Issuer may pay each relevant Dealer a commission as agreed between the Issuer and the Dealer in respect of Sukuk placed by it.

The Issuer has agreed to indemnify the Dealer(s) against certain liabilities in connection with the offer and sale of the Sukuk. The Programme Agreement entitles the Dealers to terminate any agreement that they make to place Sukuk in certain circumstances prior to payment for such Sukuk being made to the Issuer.

Application by Prospective Investors

The investor presentation period for each Tranche will be notified to prospective investors and will be outlined in the Applicable Final Terms (in respect of each Tranche, the "**Offer Period**"). The Issue Date for each Tranche of Sukuk will be a date notified by the Issuer and the relevant Dealer(s) to the prospective investors after the end of the relevant Offer Period and shall be specified in the Applicable Final Terms. During the Offer Period, the relevant Dealer(s) may solicit expressions of interest from prospective investors for acquiring the Sukuk of the relevant Series, during which time the Issuer and the relevant Dealer(s) shall consult and agree on the Profit Rate, the Margin and/or the Initial Periodic Distribution Rate, as the case may be.

Persons wishing to purchase the Sukuk of the relevant Series will be required to submit a duly completed form (an "**Investor Application Form**") to the relevant Dealer(s), or in relation to the individual participants, to the receiving banks ("**Receiving Banks**") before the end of the Offer Period and shall make payment for the Sukuk of such Series as per the instructions contained in the Investor Application Form. Investor Application Forms will be available from the relevant Dealer(s), or from the Receiving Banks, as applicable, in respect of such Series. Applications to purchase Sukuk for less than the Specified Denomination will not be accepted.

Persons wishing to purchase the Sukuk will be required to declare that they have read and understood this Base Prospectus (including sections entitled "*Risk Factors*" and " *x*") and the terms and conditions of the Investor Application Form and accept in full and agree to the basis on which the offer of Sukuk is made. They will also be required to declare that all the information provided in the Investor Application Form is true and correct.

Allocation of the Sukuk of each Tranche will be at the discretion of the Issuer and the relevant Dealer(s) and will be made following the end of the Offer Period. Once the allocation of Sukuk of such Tranche has been completed, the Issuer will cause the Profit Rate, the Margin and/or the Initial Periodic Distribution Rate, as the case may be, and the aggregate nominal amount, together with the anticipated aggregate net proceeds, of the Sukuk of such Tranche, to be communicated to investors.

All prospective investors must carefully read the Conditions prior to completing an application for the purchase of the Sukuk since the execution of the Investor Application Form constitutes acceptance of, and agreement to, the Conditions.

Allocation method of each Series of Sukuk

The relevant subscription periods, deadlines for the submission of the Investor Application Forms and the payment of subscription monies, the basis of the allocation and the final allocation process of each Series of Sukuk (the "**Offering Process**") will be at the sole discretion of the Issuer and the Sole Arranger and the Dealer(s). Without prejudice to the aforementioned, the Issuer along with the Sole Arranger and the Dealer(s) will endeavour to ensure that, during the Offering Process, the: (i) subscription period will commence and remain open for a period of up to 30 days; (ii) the allocation of the Sukuk of the relevant Series will be determined within a period of 15 days from the closing date of the subscription period; and (iii) the refund of excess subscription monies, if any, or subscription monies, as the case may be, will be made no later than 15 days from the date the allocation has been determined by the Issuer and the Sole Arranger and the Dealer(s).

The details of the Offering Process in respect of each Series of Sukuk will be outlined in the announcement made by the Issuer on the Tadawul website and in the Investor Application Form. The registration of the Sukuk of each Series will be made upon satisfaction by the Issuer of all relevant regulatory requirements and as specified in the Registry Agreement.

The Kingdom of Saudi Arabia

The Sole Arranger and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will only offer the Sukuk in the Kingdom in accordance with any laws or regulations applicable in the Kingdom governing the issue, offering and sale of securities.

General

The Sole Arranger and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will (to the best of its knowledge and belief) comply with all applicable securities laws, regulations and directives in force in any jurisdiction in which it purchases, offers, sells or delivers any Sukuk or possesses or distributes this Base Prospectus.

None of the Issuer, the Dealers and the Sukukholders' Agent represents that Sukuk may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating any such sale. Persons into whose possession this Base Prospectus or any Sukuk may come must inform themselves about, and observe, any applicable restrictions on the distribution of this Base Prospectus and the offering and sale of Sukuk.

Transfers and Payments

The Registrar will maintain the Register in respect of the Sukuk in accordance with the provisions of the Registry Agreement. Investors must either maintain an account directly with the Registrar or through a custodian or other intermediary in order to hold Sukuk. All the transfers shall be effected as per Condition 3 (Transfers of Sukuk).

In addition, pursuant to Condition 8 (Payments) all payments under the Sukuk will be made to Saudi Riyal denominated accounts in the Kingdom as notified from time to time to the Registrar and the Payment Administrator. Accordingly, investors will need to make appropriate arrangements to receive payments under the Sukuk in such an account. Investors are required to consult with their own advisers as to the requirements of setting up the accounts referred to above and must take any necessary action in respect of opening such account themselves. None of the Issuer, the Sukukholders' Agent, the Payment Administrator, the Sole Arranger and the Dealers shall have any responsibility for ensuring that investors comply with the correct process, regulations and requirements in relation to opening such accounts in order to hold Sukuk and receive payments and none of them accept any liability for any loss arising directly or indirectly as a consequence of any action or inaction in respect of setting up such accounts.

Sole Arranger and the Dealers transacting with the Issuer

The Sole Arranger, the Dealers and each of their respective affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer and its affiliates in the ordinary course of business for which they may receive fees.

In particular, in the ordinary course of its business activities, the Sole Arranger, the Dealers and each of their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer and its affiliates (including the Sukuk). The Sole Arranger, the Dealers and each of their respective affiliates that have a financing relationship with the Issuer and its affiliates routinely hedge their credit exposure to the Issuer and its affiliates consistent with their customary risk management policies. Typically, the Sole Arranger, the Dealers and each of their respective affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Sukuk. Any such short positions could adversely affect future trading prices of the Sukuk.

The Sole Arranger, the Dealers and each of their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments. In connection with any offering of Sukuk, the Sole Arranger, the Dealers and each of their respective affiliates may act as an investor for its own account and may take up Sukuk in the offering and in that capacity may retain, purchase or sell for its own account such Sukuk and any securities of the Issuer or related investments and may offer to sell such securities or other investments otherwise than in connection with an offering. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

LEGAL AND GENERAL INFORMATION

Litigation

The Issuer and the Group are parties to a number of lawsuits and disputes within their ordinary course of business, including cases relating to debt collection. The Issuer and the Group confirm that they are not subject to any claims or legal proceedings that may, separately or jointly, materially affect the Group's operations or their financial positions.

Authorisation of Sukuk

The establishment of the Programme, the creation and issue of the Sukuk and the Issuer's entry into the Transaction Documents has been authorised by a resolution of the Board of Directors of the Issuer dated 9/2/1444H (corresponding to 5/9/2022G).

The registration and offer of the Sukuk was approved by the Authority on 24/03/1444H (corresponding to 20 October 2022G).

The Issuer was granted a conditional approval by Tadawul in respect listing of the Sukuk on Tadawul on 23/03/1444H (corresponding to 19 October 2022G).

The Issuer has obtained SAMA's non-objection on the issuance of the Sukuk on 29/02/1444H (corresponding to 25/09/2022G).

Experts' statement

The joint auditors of the Issuer are KPMG and EY. The audited Annual Financial Statements were jointly audited by KPMG and EY, in each case without qualification, in accordance with the International Standards on Auditing that are endorsed in Saudi Arabia, as stated in their respective audit reports incorporated by reference herein.

Each of KPMG and EY have given and have not withdrawn their written consent to incorporation by reference in the Base Prospectus of their respective audit reports appended to the relevant audited Annual Financial Statements.

Each of Ernst & Young Professional Services (Professional LLC) and KPMG Professional Services is an institution authorised by SOCPA, the professional body that oversees audit firms in the Kingdom, to conduct independent audits of corporations in the Kingdom.

As at the date of this base prospectus, the advisors listed on pages 12 to 14 have given and not withdrawn their written consent to the publication of their names, addresses, logos and statements in this Base Prospectus as presented herein and have not withdrawn their written consent. The Base Prospectus does not include statements from any experts.

Guarantees

The Bank confirms that it will not provide any guarantees, pledges or other similar commitments in connection with the Sukuk.

Declarations

The directors of the Issuer hereby make the following declarations in respect of each Series of Sukuk issued pursuant to the Programme:

(a) Each issuance will not constitute a breach of the relevant laws and regulations in the Kingdom.

(b) Each issuance will not constitute a breach of any material contract/agreement entered into by the Issuer.

(c) All material legal information concerning the Issuer have been disclosed in the Base Prospectus.

(d) None of the directors, proposed directors, senior executives or the company secretary of the Issuer have been declared bankrupt.

(e) None of the directors, proposed directors, senior executives or the board secretary of the Issuer have been employed in the preceding five years by an insolvent company in a managerial or supervisory capacity.

Furthermore, the directors of the Issuer hereby make the following additional declarations:

(f) There has not been any commissions, discounts, brokerages or other non-cash compensation granted within the three years immediately preceding the application for registration and admission to listing in connection with an issue or offer of any securities by the Issuer or any of the Issuer's subsidiaries.

(g) There has not been any material adverse change in the financial or trading position of the Issuer or its subsidiaries in the three financial years preceding the application for registration and offering and during the period from the end of the period covered in the external auditors' report up to and including the date of approval of the Base Prospectus.

(h) Other than what is mentioned on page 104 of this Base Prospectus, the directors of the Issuer do not have any interest of any kind in the Issuer or any of the Issuer's subsidiaries, and nor does any relative of theirs have any interest of any kind in the Issuer or any of the Issuer's subsidiaries.

Subscription Undertakings

By completing the Investor Application Form, each investor:

(a) agrees to subscribe for the Issuer's Sukuk in such number as specified in the Investor Application Form;

(b) declares that they have read the Base Prospectus and understood all its content;

(c) accepts all offering instructions, the terms and conditions of the Sukuk mentioned in the Base Prospectus, Investor Application Form, and the Applicable Final Terms;

(d) accepts the number of Sukuk allocated thereto (to the maximum of the amount subscribed for) according to the Investor Application Form and other subscription instructions and terms mentioned in the Investor Application Form and Base Prospectus;

(e) undertakes not to cancel or amend the Investor Application Form after submitting it to the Sole Arranger or any of the Dealers; and

(f) undertakes that they will not assign their right to claim damages caused directly by incorrect or incomplete material information contained in the Base Prospectus, or by omitting any material information that should have been part of the Base Prospectus and could affect their decision to purchase the Sukuk.

Licenses and Certificates

The table below sets out a number of the material regulatory and operational certificates and licenses obtained by the Group:

#	Company	Issuing Authority	License Number	Purpose	Issue Date	Expiry Date
1	Emkan Finance Company	SAMA	55/ أ 202004/ش	Financing activities	24/04/1440H (corresponding to 31/12/2018G)	24/04/1445H (corresponding to 31/12/2023G)
2	Al Rajhi Capital Company	CMA	37-86070	Conducting the following securities activities: dealing, managing, arranging, advising, and custody.	10/03/1429H (corresponding to 18/03/2008G)	N/A
3	Al Rajhi Banking and Investment Corporation	SAMA	Ministerial Resolution No. M/5	Banking activities	13/11/1386H (corresponding to 23/02/1967G)	N/A
4	Al Rajhi Banking and Investment Corporation	SAMA	13/304102 /ع أ ك	Real estate financing and finance lease activities	27/04/1435H (corresponding 27/02/2014G)	N/A
5	Al Rajhi Banking and Investment Corporation (Malaysia)	Companies Commission of Malaysia	719057	Certificate of Incorporation	20/11/1426H (corresponding 22/12/2005G)	N/A
6	Al Rajhi Banking and Investment Corporation (Malaysia)	Ministry of Finance Malaysia	N/A	Islamic banking activities	23/06/1427H (corresponding 19/07/2006G)	N/A
7	Al Rajhi Company for Cooperative Insurance	SAMA	ت م 22/200911/ن	Insurance activities	29/11/1430H (corresponding 17/11/2009G) Renewed on 10/11/1442H (corresponding 20/06/2021)	26/11/1445H (03/06/2024G)

Real Estate Summary

The Group owns a number of real estate assets. The table below sets the top 20 real estate assets owned in terms of book value:

#	Deed No.	Deed Date	Country and City	Total Land Area (m2)	Book Value (SAR)
1	310119034946	14/06/1438H	Riyadh, KSA	49800	150,589,729
2	310123029879	05/03/1438H	Riyadh, KSA	40,477,5	150,589,729
3	610124033719	05/03/1438H	Riyadh, KSA	40,477,5	150,589,729
4	520219024382	18/12/1440H	Jeddah, KSA	2457	51,597,000
5	910819000878	20/11/1440H	Riyadh, KSA	5000	39,000,000
6	310803002214	28/11/1440H	Jeddah, KSA	4392,9	32,287,815
7	410106062631	20/11/1440H	Riyadh, KSA	33,956,75	30,732,594
8	310807001509	28/11/1440H	Riyadh, KSA	2600	28,262,000
9	920223019142	10/11/1439H	Jeddah, KSA	2745,59	20,042,807
10	310114044653	16/05/1440H	Riyadh, KSA	3313,86	19,551,774
11	310113079014	17/05/1440H	Riyadh, KSA	2800,2	19,236,000
12	310103037424	22/01/1439H	Riyadh, KSA	6700	18,865,715
13	530203007780	22/09/1439H	ALKhubar, KSA	5581,44	15,453,015
14	310819000815 310819000816	11/11/1440H	Taif, KSA	3395,92	16,104,115
15	410118021710	15/10/1433H	Riyadh, KSA	3000	15,375,000
16	4357	12/05/1412H	Western Region, KSA	7813,25	15,233,911
17	910807001507	28/06/1440H	Jeddah, KSA	4920	15,056,353
18	320215007677 320215007680 920215007679 220215007678	28/06/1433H	Riyadh, KSA	2670,75	14,760,000
19	310118019238	23/01/1433H	Jeddah, KSA	3160	14,689,152
20	412603001335 312603001332	04/07/1437H	Wadi Al-Dawaser KSA	15,704,45	12,730,000

Insurance Summary

The Group has entered into various insurance policies providing a range of insurance coverage which the Group believes is appropriate for its business. The following table sets out the key particulars of the material insurance policies held by the Group:

#	Insurer	Insured	Coverage Type	Coverage Period	Coverage Cap
1	Al Rajhi Company for Cooperative Insurance	The Group	Bankers Blanket Bond "BBB"	Annual, expiring in 30/08/2023	SAR 300,000,000 overall aggregate limit
2	Al Rajhi Company for Cooperative Insurance	The Group	Directors and Officers Policy	Annual, expiring in 30/08/2023	SAR 281,250,000 overall aggregate limit
3	Al Rajhi Company for Cooperative Insurance	The Group	Properties All Risk Policy	Annual, expiring in 15/7/2023	up to declared values, Top location value SAR 1,021,716,762
4	Al Rajhi Company for Cooperative Insurance	The Group	Motor Insurance Agreement - Only for fleet	Annual, expiring in 31/12/2022	SAR Up to vehicle declared value *No cap as general policy -SAR 10 MM per any one occurrence for third party liability*
5	Al Rajhi Company for Cooperative Insurance	The Group	Group Credit Takaful Policy – Mortgage Insurance	None	None
6	Al Rajhi Company for Cooperative Insurance	The Group	Fire and Allied Peril – Mortgage Insurance	Annual, expiring in June 2023	SAR 100,000,000 overall aggregate limit

Leases

The Bank has entered into a number of lease agreements pursuant to which the Bank, as lessee, has taken on lease of certain assets as part of exercising its commercial activities, including as the Bank's branches, remittance centers, ATMs, or administrative offices, in each case in various locations throughout the Kingdom. As of 19 September 2022G, the aggregate value of the Bank's lease agreements is SAR 298,739,091.

Overview of the market and trading process

In 1990G, full electronic trading of securities in the Kingdom was introduced. The Tadawul system was founded in 2001G as the successor to the Electronic Securities Information System. Trading in securities occurs through a fully integrated trading system covering the entire trading process, from the execution of the trade transaction through settlement thereof via the DSS which is managed by Edaa. Trading occurs each Business Day between 10:00 am and 3:00 pm (Sunday through Thursday of each week), during which time orders are executed. Outside such hours, orders can be entered, amended or cancelled from 9:30 am to 10:00 am. New entries and inquiries can be made from 10:00 am of the opening session. These times may be changed by Tadawul.

Transactions take place through the automatic matching of orders. Each order is accepted and its priority determined according to the price. In general, market orders (orders placed at best price) are executed first, followed by limit orders. If several orders are generated at the same price, they are executed according to the time of entry. The Tadawul system distributes a comprehensive range of information through various channels, including in particular the Tadawul website on the internet and Tadawul information link, which supplies trading data in real time to information providers such as Reuters and Bloomberg.

Transactions are automatically settled during the day, i.e., the transfer of securities takes place once the transaction is executed. Issuers are required to disclose all material information and decisions that are important for investors via the Tadawul system.

Tadawul is responsible for the surveillance and monitoring of the market participants in terms of their compliance with the Exchange Rules to ensure fair trading and an orderly market.

Allocation method of each Series of Sukuk

The relevant subscription periods, deadlines for the submission of the Investor Application Forms and the payment of subscription monies, the basis of the allocation and the final allocation process of each Series of Sukuk (the "**Offering Process**") will be at the sole discretion of the Issuer and the Sole Arranger and the Dealer(s). Without prejudice to the aforementioned, the Issuer along with the Sole Arranger and the Dealer(s) will endeavour to ensure that Offering Process maintains the (i) subscription period to commence and remain open for a period of up to 30 days; (ii) the allocation of the Sukuk of the relevant Series to be determined within a period of 15 days from the closing date of the subscription period; and (iii) the refund of excess subscription monies, if any, or subscription monies, as the case may be, to be made no later than 15 days from the date the allocation has been determined by the Issuer and the Sole Arranger and the Dealer(s). In any case, the details of the Offering Process will be specified in the announcement made by the Issuer on Tadawul website in respect of each Series of Sukuk and in the Investor Application Form of the relevant Series of Sukuk. The registration of the Sukuk of each Series will be made upon satisfaction by the Issuer of all relevant regulatory requirements and as specified in the Registry Agreement.

Documents available for inspection

Copies of the following documents will be available for inspection at the Issuer's head office at 8467 King Fahd Road, Al Muruj District, Riyadh 12263 – 2743, Kingdom of Saudi Arabia during offical business hours on each weekday (other than a Friday, Saturday and public holiday) for three days from the start of the offering period:

(a) A copy of the CMA's announcement approving the registration and offering of the Sukuk;

(b) A copy of Tadawul's approval on the listing of the Sukuk;

(c) SAMA's non-objection on the issuance of the Sukuk;

(d) The resolution by the Issuer's board of director approving the establishment of the Programme and the issuance of the Sukuk;

(e) The Royal Decree No. M/59 dated 3/11/1470H (corresponding to 29/06/1987G) approving the incorporation of Al Rajhi Banking and Investment Corporation as a Saudi Arabian joint stock company;

(f) The articles of association and bylaws of the Issuer;

(g) The commercial registration certificate of the Issuer;

(h) The Financial Statements;

(i) The Transaction Documents; and

(j) the consent letters for:

(i) The Financial Advisor Sole Arranger and Dealer to include its name and logo in the Base Prospectus;

(ii) The Legal advisor for the Issuer to include its name and logo in the Base Prospectus;

(iii) The Legal Advisor for the Financial Advisor Sole Arranger and Dealer its name and logo in the Base Prospectus; and

(iv) The Auditors to include their names, logos, and stataments in the Base Prospectus.

WAIVERS

The Issuer has submitted an application to the CMA for the waiver of the requirement under Article 51(a) of the Rules on the Offer of Securities and Continuing Obligations, which relates to the prospectus being published and made available to the public at least fourteen (14) days prior to the start of the offering. Pursuant to this waiver, the Issuer will publish the prospectus five business days prior to the start of the retail offering. The board of the CMA has issued a resolution approving this waiver on 24/03/1444H (corresponding 20 October 2022G).

The Issuer has submitted an application to the CMA for the waiver of the requirement under Annex 15 (19-3) of the Rules on the Offer of Securities and Continuing Obligations, which relates to including any contracts or arrangement, in effect or contemplated, in which a director or senior executive or any of their relatives has an interest and that is related to the business of the Issuer or any of the Issuer's subsidiaries as part of the documents available for inspection. Pursuant to this waiver, the Issuer not be making such documents available for inspection. The board of the CMA has issued a resolution approving this waiver on 24/03/1444H (corresponding 20 October 2022G).

GLOSSARY

APPENDIX 1

THE ISSUER'S BY LAWS

Memorandum and Articles of Association
of
Al Rajhi Bank

(Al Rajhi Banking & Investment Corporation)
Saudi Joint Stock Company

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Royal Decree No. M/59 dated 03/11/1407 A.H

Approving the transformation of the Company to a joint stock company.

With the help of Almighty Allah, we Fahad bin Abdulaziz Al Saud, king of the Kingdom of Saudi Arabia, having perused Article (19) of the Council of Ministers Law duly promulgated by Royal Decree No. (38), dated 22/10/1377 A.H, Article (52) of the Companies Law duly promulgated by Royal Decree No. M/6 dated 22/03/1385 and subsequently amended by Royal Decree No. M/27 dated 28/06/1402 A.H, Banking Control Law duly promulgated by Royal Decree No. M/5 dated 22/06/1386 A.H and Council of Ministers resolution No. (230) dated 02/09/1403 A.H,

Enacted as follows:

I. A license is hereby granted for the incorporation of Al-Rajhi Banking & Investment Corporation, Saudi Joint Stock Company in accordance with the applicable regulatory rules and the attached Memorandum and Articles of Association;

II. It is incumbent upon the Deputy Premier and Minister of Finance and National Economy to enact this decree.

Fahad bin Abdulaziz Al Saud
King of Saudi Arabia

Chapter One
Incorporation of the Company

Article (1): Incorporation

Pursuant to these Articles of Association, the founding shareholders have hereby incorporated a Saudi Joint Stock Company in accordance with the provisions of the Companies Law, Banking Control Law, Council of Ministers resolution No. 245 dated 26/10/1407 AH, other applicable laws and regulations and the provisions of this Memorandum and Articles of Association.

Article (2): Company Name

The Company name shall be "Al Rajhi Banking & Investment Corporation" a Saudi Joint Stock Company, hereinafter to be referred to as the "**Company**".

Article (3): Purposes of the Company

The purposes of the Company shall be to engage in banking and investment activities in accordance with the provisions of the Company's Memorandum of Association, the Banking Control Law and other applicable laws and regulations in the Kingdom of Saudi Arabia as well as by-laws, resolutions and rules issued by Saudi Central Bank, in compliance with the nature of Company activities and Saudi applicable by-laws. To achieve these objectives, the Company shall engage in banking and investment activities for its own account and for the account of third parties, within the Kingdom of Saudi Arabia and abroad, as well as the limits and conditions that are stipulated by Saudi Central Bank, including the following operations:

A. Open current accounts and receive demand deposits in the Saudi currency or other currencies.
B. Open investment accounts and the like in Saudi currency and other currencies, with the objective of receiving charges on their operation.
C. Issue, accept and deal in negotiable instruments, such as promissory notes, bills of exchange and checks; accept and deal in bank notes, coins and currencies of all types.
D. Provide financial and credit facilities in the Saudi Riyal and other currencies based on a profit and loss sharing or any other schemes.
E. Deal in shares and bond trading in accordance with the applicable rules that regulate trading in shares through local banks.
F. Open documentary letters of credit, issue letters of guarantee and provide banking facilities for import, export and domestic trade.
G. Acquire, own, sell and deal in foreign currencies, bullions and precious metals.
H. Receive funds, bonds and valuables as a deposit, loan, or safekeeping against receipts whereof.
I. Open accounts in the name of the Company with local and foreign banks as well as other financial institutions.
J. Set up, manage and lease safe deposit boxes.
K. Act as an agent, correspondent or representative of local and foreign banks.
L. Transfer funds within the Kingdom and abroad.
M. Act as a collection agent for funds, bills of exchange, promissory notes and any other documents within the Kingdom and abroad.
N. Conduct any other permissible banking operations pursuant to the provisions of banking and monetary regulations that are applicable in the Kingdom.
O. Establish, operate and manage warehouses and other storage facilities for the storage of goods and commodities, in addition to providing finance through pledging such goods and commodities.
P. Provide consultation and advisory services in the field of investment; assume the role of an investment manager of funds, agent or financial representative in addition to

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managing the financial affairs of any natural or judicial person or persons, estate administration and real estate (property) management.

Q. Collect due money from third parties and give discharge by it, either in the Kingdom of Saudi Arabia or abroad, on behalf of any natural or legal person, or as trustee, executor of estates.

R. Manage, sell, utilize, acquire and deal in any funds, titles or interest in any transferable or fixed assets that may be accrued, owned or acquired by the Company in payment of all or part of its dues or as security for any granted loans or facilities that are related in any other manner to such dues or security pursuant to applicable laws and regulations.

S. Establish subsidiary companies, subscribe to or participate in any manner, merge or take over companies or corporations with activities that serve the objectives of the Company or that assist in their achievement, without prejudice to the applicable laws and regulations of the Kingdom of Saudi Arabia.

T. Borrow or obtain finance in any manner that is compatible with the established rules of Company operations, enter into contracts, provide relevant guarantees, warranties and pledges within the Kingdom and abroad.

U. Supervise the Management of investment units (portfolios) and investment funds and participate in capital markets with the objective of promoting Islamic investment and financing methods.

V. Carry out all other activities and acts that assist the Company in achieving its stated objectives or expanding its business activities.

W. Participate in various investment activities, including commercial, agricultural, industrial, real estate and other activities.

X. Enter into all obligations provided or accepted by the Company with various Government or Public Establishments, or with any other natural or legal person, within the Kingdom or abroad.

Y. Exercise retail and corporate finance activities and others in all finance types, such as installment sale, lease ending with ownership or any other finance type to all goods and commodities.

Z. Issue or deal in all types and categories of negotiable instruments transferable to shares or other, without prejudice to the provisions of Islamic Sharia, in its capacity as Issuer thereof or Investor therein or Purchaser thereof, to accomplish any of its objectives as well as fulfill any of its financing and investment needs.

Article (4) Term of the Company

The term of this Company shall be ninety-nine (99) Gregorian calendar years from the date of the Minister of Commerce resolution to announce its formation pursuant to the provisions of the Companies Law. This term may be extended by a resolution of the Extraordinary General Assembly prior to the completion of its initial term by a minimum of one year.

Article (5) Head Office of the Company

The head office of the Company shall be located in the city of Riyadh. Subject to a resolution by the Extraordinary General Assembly, the Company may transfer its head office to any other city inside the Kingdom of Saudi Arabia. The Board of Directors may also establish branches or offices and appoint correspondents within the Kingdom or abroad as may be required or beneficial to Company business without prejudice to applicable laws and regulations of the Kingdom of Saudi Arabia.

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Chapter Two
Capital and Shares

Article (6) Capital of the Company

Capital of the Company shall be (SAR 40,000,000,000) forty billion Saudi Riyal fully paid, divided into (SAR 4,000,000,000) four billion nominal shares of equal value of ten (10) Saudi Riyal each. All shares shall be ordinary shares of equal cash value in terms of rights and obligations of all aspects. The Company shall also have the right to increase or decrease its capital without prejudice to the provisions of this Memorandum of Association, Companies Law, Banking Control Law and all other applicable laws and regulations.

Article (7): Subscription Provisions in Incorporation Stage

The founders have subscribed to (SAR 4,275,000) four million two hundred and seventy-five thousand shares of the Company's capital shares, paid in full. The total subscription of four hundred twenty-seven million five hundred thousand (427,500,000) Saudi Riyals has been deposited in an account duly opened with Riyadh Bank in the name of "Al Rajhi Banking and Investment Corporation", Saudi Joint Stock Company under establishment, against a certificate of deposit duly issued by the said bank. The remaining Three-Million and Two-Hundred and Twenty-Five Thousand (3,225,000) shares shall be offered for public subscription by Saudi nationals within thirty (30) days from the date of publication of the Royal Decree promulgating the issue of license for the formation of the Company. The value of shares shall be paid in full upon subscription. The total amount of this subscription shall be deposited in the name the Company under establishment with the bank or banks specified for this particular purpose.

In the event the number of shares subscribed in exceeds the number of shares put for public subscription, shares assigned to subscribers shall be prorated accordingly. However, the Board of Directors of the Company may give priority to smaller subscribers.

In the event of non-subscription in any given number of shares that are put for public subscription by Saudi nationals within a deadline of thirty (30) days or any subsequent extension that may be decided by the Company subject to the approval of the Minister of Commerce pursuant to the provisions of the Companies Law, the Company shall assign the unsubscribed shares to the founders pro rate to their share subscriptions against full payment of their share value and associated expenses.

Article (8) Issuance of Shares

A. Shares shall be of a nominal value of fifty (10) Saudi Riyals. In the event of increase of Company capital, new shares shall not be issued in less than the stated nominal share value but may be issued at a premium, and in the latter case the difference in value shall be included in a separate item under shareholders' equity, and shall not distributes to shareholders as profits.

B. Shares shall also be indivisible against the Company. However, in the event that more than one person owns a share, they have to select one of them as their representative in exercising the rights of disposition with such share. These persons shall, however, be jointly accountable with regard to the obligations associated with the ownership of the respective share.

Article (9) Trade of Shares

A. Company shares shall be nominal. Subject to the other restrictions that are stipulated under these Articles of Association, the Company shares shall be negotiable.

B. Notwithstanding the other restrictions under these Articles of Association, shares subscribed by the founders may not be negotiated before the publication of the balance sheet and profit and loss account for five full fiscal years, each of which shall not be less than twelve months from the date of Company incorporation. Shares subscribed by the public shall not be negotiated before the meeting of the first constituent assembly of the

Company. Share certificates shall be annotated to indicate their type, date of Company incorporation and the terms during which they shall not be negotiable.

However, following the publication of the balance sheet and profit and loss account for the first fiscal year of no less than twelve months, title of founder shares may be transferred from one founder to another in accordance with the applicable terms and conditions of sale of equities between founders, or may be transferred to members of the Board of Directors to be submitted as security for Board membership or from successors of a deceased founder to third parties. In such cases, the Board of Directors may approve or disapprove the transfer of title of shares pursuant to applicable laws and regulations of the Kingdom of Saudi Arabia.

Article (10) Register of Shareholders

Company shares shall be negotiated under the provisions of Capital Market Authority Law. Transfer of title in the share subject of negotiation against the Company or third parties shall be valid only from the date of its recording in the said register. Subscription or ownership of shares implies an acceptance on part of the shareholder of the Company's Articles of Association and the valid resolutions issued by the general assemblies of shareholders whether attended or not and whether he approved or disapproved such resolutions.

Notwithstanding the foregoing, the Board of Directors may refrain from registration or approval of any transfer of share ownership if such transfer results in violation of applicable Saudi laws and regulations. Transfer of share ownership against the Company or third parties shall not be valid unless recorded by the Company under the applicable laws and regulations. No obligations shall be incurred on part of the Company or the Board of Directors against any person who refrains from recording the proposed transfer of share ownership in accordance with the terms and conditions of this paragraph. Additionally, the Company may sell and buy its shares, including treasury shares in accordance with the statutory controls.

Article (11) Preferred Shares

The extraordinary General Assembly of the Company may, in accordance with the principles established by the competent authority and after obtaining the non-objection of Saudi Central Bank, issue preferred shares, buy the same, convert ordinary shares into preferred shares or convert preferred shares into ordinary shares. Preferred shares shall not empower their holder to vote in the General Assemblies of the shareholders. However, these shares entitle their holders to the right to obtain a percentage more than the ordinary shareholders of the net profits of the Company after setting the statutory reserve apart.

Article (12) Seizure of Shares

The Company may seize the shares owned by any subscriber who is in debt to the Company including any accrued but unpaid dividends as security for the payment of his debt or honoring his obligations to the Company, provided, however, that such shares shall not bear any encumbrances to third parties, fixed or restricted, which is recorded in the Company's register. After thirty (30) days of the Company's serving the defaulting subscriber a notice to this effect, the Board of Directors may sell the seized shares in a public auction and recover the amounts due to the Company from the proceeds of sale and the balance, if any, shall be returned to the respective subscriber. However, if the proceeds of sale were not sufficient to cover Company dues, the Company may recover the balance from all other funds of the subscriber in accordance with the applicable laws and regulations of the Kingdom of Saudi Arabia.

Article (13) Capital Increase

A. Without prejudice to the provisions of the Banking Control Law and other applicable regulations and by-laws and subject to a resolution of an Extraordinary General Assembly, the Company's capital may be increased from time to time, provided however, that any prior capital increase, if any, has been fully paid. Such a resolution shall determine the method of capital increase. Shareholders shall also be notified of the resolution to increase Company capital and their priority in subscribing in the new issue and conditions related thereto. Such resolution shall be published in one of the local daily newspapers with circulation in the city where Company head office is located. A shareholder may express his interest in practicing his right in such priority to own the new issues of shares within fifteen days from the date of relevant advertisement publication. New issues of shares shall be distributed over the interested shareholders pro rate to the old shares owned by each one of them, provided however, that the number of shares they acquire of the new issue does not exceed the number in which they have subscribed. These new share issues shall be distributed to the founding shareholders who have requested more than their pro rate share of the old share that they own, provided, however, that the number new of shares they acquire does to exceed the number of shares to which they have subscribed. The remaining shares, if any, shall be put forward for public subscription for Saudi and non-Saudi nationals pursuant to the provisions of these Articles of Association and other applicable laws and regulations. However, the Extraordinary General Assembly may revoke priority right for shareholders' subscription in capital increase against cash shares or give priority to non-shareholders in the cases it deems appropriate for the Company's interest.

B. In case of capital increase through new cash shares issue, the value of such shares shall be fully paid. However, in the event of failure on part of a subscriber in the payment of the value of his shares in a timely manner, the Board of Directors may serve him a notice by registered mail advising him to pay such amount within a deadline of fifteen (15) days or, otherwise; such shares may be sold in a public auction. However, a defaulting subscriber may pay the due amount until the specified date of auction in addition to the expenses sustained by the Company in this regard. In this case, the Company shall recover the amounts due to it from the proceeds of sale and the balance shall be returned to the respective subscriber. However, if the proceeds of sale were not sufficient to cover Company dues, the Company may recover the balance from all other funds of the subscriber. Additionally, a sold share shall be cancelled and the buyer shall receive a new share that carries the same serial number of the cancelled share and the new share shall be endorsed and recorded in the register of shares.

C. Without prejudice to the provisions of the Banking Control Law and other applicable laws and regulations in the Kingdom of Saudi Arabia, an Extraordinary General Assembly may decide to decrease the Company's capital if found to be exceeding its need or if the Company has sustained losses, provided that Company capital shall not go below the minimum limit stipulated under the Banking Control Law. Such resolution shall not be issued until after the presentation of the auditor's report that delineates the reasons that call for such decrease and the obligations of the Company as well as the impact of such decrease on these obligations. The resolution shall also show the method by which such decrease would take place.

In the event that such decrease of Company capital is a result of having capital that is in excess of Company's needs, creditors shall be called to express their objection to such decrease within sixty days of the date of publication of the resolution of decrease in one or more domestic daily newspapers that are in circulation in the same city where the Company head office is located. In the event of objection by any creditor who files relevant documentation with the Company within the stated deadline, the Company shall pay him his debt if it is found to be due for payment or furnish him with sufficient guarantee to pay such debt upon its date of maturity if it is not due for payment yet.

Chapter Three
Management of the Company

Article (14) Management of the Company

The Company shall be managed by a Board of Directors composed of eleven members, with no more than two executive members while independent members may not be less than the minimum provided by applicable Laws and Regulations; members shall be appointed by the shareholders in the ordinary general meeting for three years after acquiring the Saudi Central Bank non-objection against their appointment, those members whose membership period is ended may always be reappointed, With exception to the foregoing the Founders have nominated the first Board of Directors for a term of five years composed of the following Directors:-

01. Sheikh Sulaiman bin Abdulaziz bin Saleh Al Rajhi (Chairman of the Board)
02. Sheikh Abdullah bin Sulaiman bin Abdulaziz Al Rajhi
03. Sheikh Abdullah bin Abdulaziz bin Saleh Al Rajhi
04. Sheikh Mohammed bin Abdulaziz bin Saleh Al Rajhi
05. Sheikh Sulaiman bin Saleh bin Abdulaziz Al Rajhi
06. Sheikh Mohammed bin Abdullah bin Abdulaziz Al Rajhi
07. Sheikh Ali bin Ahmed Al Shedi
08. Sheikh Saeed bin Omar bin Qasim Al Essaey
09. Sheikh Mohammed bin Othman bin Ahmed Al Bishr
10. Eng. Salah bin Ali bin Abdullah Aba Al Khail
11. Sheikh Mohammed bin Ibrahim Al Essa

Article (15) Termination of Board Membership

A. Membership of the Board of Directors shall be terminated under the following conditions:
   1. Expiry of the Board term;
   2. Resignation or death of a Board member;
   3. If a member is rendered unfit for Board membership pursuant to the provisions of any valid regulations in the Kingdom of Saudi Arabia;
   4. If the member is terminated by a resolution of the General Assembly issued by a two-thirds majority vote and the discharge is not upon request of the Board of Directors and by absolute majority in the event that discharge is based on a request of the Board of Directors;
   5. If the member is rendered mentally unfit;
   6. If the member is convicted of fraud, mistrust or dishonor;
   7. If the member is declared bankrupt or arrived at an arrangement or composition with creditors.
   8. If the member doesn't attend three meetings a year without an acceptable excuse.

B. Saudi Central Bank ("SAMA") shall be notified in the event that the position of a given member becomes vacant. The Board may nominate a member to the vacant position, who shall be competent and experienced and shall be appointed after obtaining the approval of Saudi Central Bank. The appointment shall be communicated to the Ministry of Commerce, Capital Market Authority and Saudi Central Bank within five working days from appointment date. Such appointment shall also be submitted to the first meeting of the Ordinary General Assembly, and the new member shall complete the term of his predecessor. If the vacancy develops in the First Board of Directors that has been appointed for a term of five years, the Board of Directors, subject to the prior approval of Saudi Central Bank, shall fill out the vacant position for the remaining term. In this case, the appointment resolution shall be subject to the approval of the following General Assembly.

C. If the necessary conditions are not met for convening the Board of Directors, because the number of attendants is less than the minimum number stipulated in the Company's Articles of Association, the rest of the General Assembly members shall call for a General Assembly meeting within sixty days in order to elect the necessary number of members.

Article (16): Powers of the Board

Without prejudice to the powers of the General Assembly, the Board of Directors shall enjoy the widest authorities with regard to managing the Company business and supervising its affairs in a manner that achieve its objectives. In this regard, the Board shall have all the powers and carry out all works and dispositions that the Company is entitled to take under these Articles of Association, Memorandum of Association or other than those expressly stated in these Articles of Association as expressly assigned the General Assembly. The Board of Directors shall also be authorized to enter into financial obligations for terms not exceeding three years, sell or pledge property, release Company debtors of their obligations, enter into reconciliation, accept arbitration and, more specifically, incorporate subsidiary companies and amending its Articles of Association, pursuant to Banking Control Law and Saudi Central Bank Regulations.

The Board of Directors may delegate any of its authorities to the managing director, any director of the Board, any committee consisting of board members or any officers or employees of the Company. The Board shall also have the right, from time to time, to delegate any person certain authority or authorities for a specified period of time as the Board may deem appropriate and entitle the representative to delegate third parties the powers vested in him by the Board of Directors, time after time. However, the Board of Directors shall not be entitled to donate any of the Company's property unless such donation is deemed to be within the stated limits stipulated by applicable laws and regulations of the Kingdom of Saudi Arabia.

Article (17) Executive Committee

The Board of Directors shall form an executive committee, after obtaining Non-Objection of Saudi Central Bank, consisting of Board members. Subject to the guidelines and restrictions stipulated by the Board of Directors from time to time, the Committee shall exercise all the powers entrusted to it by the Board of Directors. However, the executive committee shall not have the right to amend any resolutions, rules or regulations that have been issued by the Board.

The Executive Committee shall be consisted of five Board members including the chairman of the Board, then the board shall appoint a head for the committee among board members.

A meeting of the Executive Committee shall not be valid unless it is attended by all the five members personally or by proxy, provided, however, that the number of attending members should not be less than three. A member of the Executive Committee may appoint another member to represent him in attending and participating in voting at Executive Committee meetings. However, one member shall not represent more than one member in the meetings of the Executive Committee.

The majority of votes shall make resolutions of the Executive Committee. However, in case of equal votes, the side with the casting vote of the Committee head shall prevail.

The meetings of the Executive Committee per year shall not be less than the statutory minimum specified by the relevant applicable laws and regulations and the Company's internal policy or whenever the head of Committee calls for a meeting.

Deliberations and resolutions of the Executive Committee shall be recorded in the form of minutes reports to be signed by head and secretary of the Committee. The minutes report shall be distributed to all members of the Board of Directors during the next meeting of the Board.

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These minutes shall be kept in a special register that shall be signed by the head and secretary of the Committee.

Article (18) Remunerations of Board Members

Remuneration of the Board members shall be a fixed amount in addition to attendance allowance to be paid annually. The standards for determination and payment of such remuneration shall be identified within an independent policy which shall be approved by the General Assembly in accordance with the official resolutions, instructions and regulations issued in this regard. Report of the Board of Directors to the Ordinary General Assembly shall contain a full account of the remuneration received by members of the Board of Directors during the subject fiscal year, including remunerations, attendance allowances, out-of-pocket expenses and other monetary or in-kind benefits. The said report shall also contain a statement of the sums of money received by members of the Board in their capacity as employees or managers or the sums of money received by them against rendering technical, managerial or advisory services. The said report shall also include a statement of the number of meetings of the Board of Directors and the number of meetings attended by each member from the date of the last meeting of the General Assembly.

Article (19) Powers of Chairman, Deputy Chairman and Secretary of the Board

A. The Board of Directors shall appoint one of its non-executive members as a Chairman, in addition to a Deputy Chairman who shall take over the duties of the absent Chairman, subject to the approval of Saudi Central Bank in both cases. Chairman of the Board may call for Board meetings; chair Board and General Assembly meetings; represent the Company before competent authorities, judicial bodies and third parties. The Chairman shall also take all other functions assigned to him by the Board. The Board may appoint one of its members as a managing director.

B. The Board of Directors shall appoint a secretary of the Board after obtaining Non-Objection of Saudi Central Bank. The Board shall determine the Secretary's working conditions, remuneration, and shall be entrusted with taking minutes of Board deliberations and resolutions and recording them in a special register and maintaining this register.

C. The term in office of the Chairman of the Board, the Deputy Chairman, the managing director, members of the executive committee and Board secretary who is also a Board member, shall not exceed the term of his valid membership in the Board and he may be reappointed at all times.

Article (20) Board Meetings

A. Subject to the applicable laws and regulations, The Board shall convene a minimum of four times annually upon call from its Chairman, and an agenda shall be attached to the call for meeting. The Chairman shall call for a Board meeting upon the request of two Board members. Calls for a meeting shall be forwarded to each Board member via fax or any other means before the stated date of meeting, and within a period to be specified under the applicable regulations and by-laws.

B. A Board meeting shall be valid when attended by a minimum of seven (7) members personally or by proxy. The minimum of the independent members attending the meeting shall be according to the applicable regulations and by-laws, provided that the number of members attending personally shall be no less than five (5) members. A Board member may appoint another member to represent him in attending and voting in Board meetings. However, no Board member may represent more than one other member in the Board of Directors.

C. Board resolutions shall be passed by the majority of (vote) of attending and represented members. However, in the event of equal votes, the party with the casting vote of the

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Chairman shall prevail, except for the power of attorney, which shall be passed under minimum votes of seven members.

D. Any member of the Board of Directors who has a direct or indirect personal interest in any matter or proposal that is put forward for deliberation by the Board of Directors or the executive committee, as may be deemed necessary, shall notify the Board or the committee of the nature of his interest in the matter that is put forward for discussion. Such member shall refrain from participation in deliberation and voting on the matter or proposal in which he has an interest by the Board or executive committee meetings without having to exclude this member from the quorum needed for a valid meeting.

E. Deliberations and resolutions of the Board shall be recorded in minute reports to be signed by the Chairman and secretary of the Board, after being endorsed by the present Board members by signing a copy of such minute. These minutes shall be recorded in a special register to be signed by the Chairman and secretary of the Board.

F. The Board may issue resolutions by requesting individual members to vote by circulation or by any other means of communication. In such case, these resolutions shall be presented to the Board at its first subsequent meeting, unless any Board member requests in writing that the Board shall meet for deliberation of those resolutions.

Article (21) Powers of the Managing Director

A. The Board of Directors may appoint one of its members as a managing director of the Company for a specific period in accordance with terms and conditions to be determined by the Board. The Board shall also have the right to terminate such appointment. Additionally, an appointment of a managing director shall be terminated automatically if he fails to exercise his stated functions for any reason.
The managing director shall receive the numeration that is determined by the Board of Directors. Appointment of the managing director by the first Board of Directors shall be subject to the prior approval of Saudi Central Bank.

B. The managing director shall have the authority and the responsibility of implementing Company policies as determined by the Board of Directors. He shall also exercise overall supervision over Company operations and shall act as the Company's chief executive officer. When appointed by the Board of Directors, the managing director shall be entrusted with the powers that are normally entrusted to a senior executive officer.

C. In addition to the above, the Board of Directors may entrust the managing director with any of the powers of the Board subject to any terms and conditions or limitations that it may deem appropriate. The managing director may exercise such powers in addition to the Board or the Board may be excluded from exercising such powers. From time to time, the Board of Directors may cancel, withdraw, amend or change these powers totally or partially.

D. The Board of Directors may appoint one or more managers of the Company and determine the powers of each of them as well as the terms and conditions of his appointment.

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Chapter Four
Audit and Compliance Committee

Article (22): Composition of the Committee

The Audit and Compliance Committee shall be composed under a resolution of the Ordinary General Assembly after obtaining non-objection of Saudi Central Bank, from members other than the executive Board members, whether shareholders or others, provided that the number of members shall not be less than three members and not more than five members. The resolution shall specify the duties of the Committee, the controls of its work, and the remuneration of its members.

Article (23): Quorum of Committee Meeting

A meeting of Audit and Compliance Committee shall not be valid unless attended by the majority of its members. The majority of votes shall make resolutions of Audit and Compliance Committee. In case of equal votes, the side with vote of the meeting president shall prevail.

Article (24) Committee Competencies

The Audit and Compliance Committee shall be responsible for monitoring the Company's operation. In doing so, it shall be entitled to peruse the Company's records and documents and request clarification or statement from the members of the Board of Directors or the Executive Management. It may request the Board of Directors to call for a meeting of the General Assembly, in case the Board hinders its work or the Company sustains gross loss or damage.

Article (25): Reports of the Committee

The Audit and Compliance Committee shall peruse the Company's financial statements, reports and notes submitted by the auditors and provide its views thereon, if any. In addition, Compliance Committee shall prepare a report on its opinion regarding the adequacy of the internal control system of the Company and other activities it takes over within the scope of its competence. The Board of Directors shall deposit adequate copies of this report at the Company's head office at least twenty one days prior to the meeting of the General Assembly, in order to provide shareholders with a copy thereof, if they wish. The said report shall be read out during the meeting of the General Assembly.

Chapter Five
General Assemblies

Article (26) Meeting of General Assembly

A properly formed General Assembly shall represent all shareholders and may convene only in the city in which the Company head office is located.

Article (27) Attendance of Assemblies

Each subscriber, regardless of the number of shares that he holds, may attend the Constituent Assembly meetings personally or by proxy on behalf of other subscribers. Each shareholder, regardless of the number of shares that he holds, may attend ordinary or extraordinary General Assembly meetings. A shareholder shall also have the right to authorize another shareholder, other than a Board member, to attend General Assembly meetings on his behalf, provided that the shareholders represented by proxies are not more than the number permitted under the applicable regulations and by-laws. Each shareholder shall have one vote, in the meeting of the General assembly, for each share he holds

Article (28) Constituent Assembly

The Constituent Assembly shall be convened upon the request of the founders in accordance with the provisions of Companies Law and shall have the following powers:

1. Verify subscription and payment of the entire capital in accordance with the terms and conditions of these Articles of Association;
2. Approve the final draft of these Articles of Association. However, no substantial changes to these Articles of Association shall be passed without the approval of all attending subscribers;
3. Discuss, in Founders Report, all the activities and expenses related to the incorporation of the Company;
4. Appoint and determine the fees of the first auditors of Company accounts.

   For the Constituent Assembly meeting to be valid, it shall be attended by a number of subscribers who represent a minimum of one-half of the Company's capital. Each subscriber attending a Constituent Assembly meeting shave have one vote for each share that he owns or represents. Resolutions of the Constituent Assembly shall be passed by the absolute majority of represented votes.

Article (29) Competencies of Ordinary General Assembly

Notwithstanding the issues that fall within the powers of an Extraordinary General Assembly, the Ordinary General Assembly shall be in charge of all matters related to the Company. The Ordinary General Assembly shall convene at least once a year within the following six months from the close of the fiscal year of the Company. Additional Ordinary General Assembly meetings may also be convened as necessary.

Article (30) Competencies of Extraordinary General Assembly

Without prejudice to the provisions of the Banking Control Law and other applicable regulations, Extraordinary General Assemblies shall be authorized to amend the Articles of Association of the Company, excluding those provisions that are not subject to amendment pursuant to the provisions of the Companies Law. The Extraordinary General Assembly shall also be in charge of deliberating matters related to extending or shortening the term of the Company, merging the Company in any other Company or corporate or its dissolution before the maturity of its stated term for any reason; resolve with regard to matters that fall within the jurisdiction of the Ordinary General Assembly under the same conditions and circumstances that are deemed appropriate for the latter assembly.

Article (31) Calling for Assemblies Meeting

An Ordinary General Assembly of shareholders shall convene upon call from the Board of Directors. The Board of Directors shall also call for an Ordinary General Assembly upon the request of the auditor, Audit and Compliance Committee or a number of shareholders who represent a minimum 5% of the Company's capital. The Auditors may call for a meeting of the Assembly in case the Board does not call for such meeting within thirty days from the date on which the auditors call for that meeting. The competent authority shall call for an Ordinary General Assembly in the cases set out in Article (90) of Companies Law.

The call for General Assembly meeting and its agenda shall be published in a daily newspaper in circulation in the city of the head office of the Company, twenty one days, at least, prior to the stated deadline of the meeting. A call may also be forwarded to the shareholders by registered mail. Such call shall include the agenda of the meeting. A copy of this call and the agenda shall be forwarded to the Directorate General of Companies of the Ministry of Commerce, Capital Market Authority and Saudi Central Bank within the stated deadline for circulation.

Article (32) List of Assembly Attendees

Shareholders who wish to attend a meeting of the Ordinary General Assembly or Extraordinary General Assembly meeting shall list their names at the beginning of the meeting. Upon holding a General Assembly meeting, a list of names of attending shareholders or their proxies, their addresses and number of shares held by each of them personally or by proxy, and number of votes allocated for those shares shall be prepared. All parties concerned may be acquainted with this list.

Article (33) Quorum of Ordinary General Assembly Meeting

An Ordinary General Assembly meeting shall be valid if attended by shareholders who represent a minimum of twenty five percent (25%) of the Company's capital. However, if such a quorum is not met during the first meeting, a second meeting shall be held one hour after the expiry of the duration specified for the first meeting, on condition that the call for the first meeting indicates that such second meeting may be convened. The second meeting shall be deemed valid regardless the number of shares represented therein.

Article (34) Quorum of Extraordinary General Assembly Meeting

An Extraordinary General Assembly meeting shall valid if attended by shareholders who represent a minimum of fifty percent (50%) of the Company's capital. However, if such a quorum is not met during the first meeting, a second meeting shall be called for one hour after the expiry of the duration specified for the first meeting, on condition that the call for the first meeting indicates that such second meeting may be convened. The second meeting shall be deemed as valid when attended by shareholders who represent a minimum of one fourth of the Company capital. If such quorum is not also met during the second meeting, a call shall be served for a third meeting with the same conditions of convening the General Assembly stipulated under article (31) hereof. The third meeting shall be deemed as valid regardless of the number of shares represented thereinafter obtaining approvals from competent authority.

Article (35): Voting in Assemblies

A. Each shareholder shall be entitled to one vote per each share he represents in General Assembly. Accumulative voting mechanism shall be applied to Board elections, so as not to allow a share to vote for more than once.

B. Members of the Board of Directors shall not be allowed to participate in voting on General Assembly resolutions pertaining to their discharge during their term in office as members of the Board or to any direct or indirect interest thereof.

Article (36): Resolutions of Assemblies

Resolutions of Ordinary General Assembly shall be passed by the absolute majority of the shares represented in the meeting, while the resolutions of the Extraordinary General Assembly shall be passed by a majority of two thirds of the shares that are represented in the meeting, except for the resolutions related to increasing or decreasing the capital of the Company, extending its term, its dissolution prior to the maturity of its term, or merging it in any other Company or corporate, which shall be valid only if passed by a majority of three quarters of the shares that are represented in the meeting.

Article (37): Discussion in Assemblies

Each shareholder may participate in the discussions and deliberations of subjects on the agenda of the General Assembly and to address their questions with regard to such subjects to members of the Board of Directors or the auditors. Members of the Board or the auditors shall answer the questions of the shareholders to the extent that does not jeopardize the interests of the Company. In the event that a shareholder is of the opinion that any reply to any given question is not convincing, he shall refer the issue to arbitration by the General Assembly whose resolution in this regard shall be deemed as conclusive and final.

Article (38) Headship of Assemblies

A General Assembly meeting shall be chaired by the Chairman of the Board of Directors. The Deputy Chairman or a temporary Chairman to be selected from members of the Board shall deputize the Chairman of the Board in the event of his absence. Chairman of the General Assembly meeting shall appoint a secretary of the meeting from Board members or others and shall appoint vote collectors who shall be selected from the attending shareholders.

A minutes of meeting report of the General Assembly meeting shall be prepared. Such minutes shall contain a list of the names of attending shareholders, personally or by proxy, number of shares that they represent, resolutions passed, number of votes that approved or disapproved each such resolution and a comprehensive summary of discussions held during the meeting. Following each such meeting, these minutes shall be recorded in a special register to be signed by the Chairman of the respective General Assembly, secretary and votes counter.

Chapter Six
The Two Auditors

Article (39): Appointment of Auditors

An Ordinary General Assembly shall annually appoint two auditors who are licensed to operate in the Kingdom of Saudi Arabia - after obtaining Non-Objection of Saudi Central Bank - and shall determine their fees, provided that their term of employment does not exceed the statutory period specified in the relevant regulations and bylaws. The Company may reappoint the two auditors two years after the expiry of such term or replace them.

Article (40) Powers of Auditor

Auditors of Company accounts may, at all times, peruse Company books of account and records and relevant documentation. They may also request information and clarifications that each of them deems necessary to obtain. They shall also have the right to verify the assets and liabilities of the Company.

Article (41) Auditor Reports

Auditors of Company accounts shall submit to the annual General Assembly a report incorporating their opinion with regard to the Company's position relating to enabling them have access to the requested information and receiving the requested clarification and highlighting any breach or violation to the provisions of Companies Law, Banking Control Law, or these Articles of Association as well as their opinion on the fair representation of Company accounts to its actual financial position.

Chapter Seven
Company Accounts and Dividend Distribution

Article (42) Fiscal Year

The fiscal year of the Company shall commence on the first day of January and end on the last day of December of each calendar year. However, the first fiscal year of the Company shall cover the period from the date of its incorporation to the close of December of the same calendar year, unless such period is less than six months, then the fiscal year shall extend to the close of December of the following year.

Article (43) Financial Documents

At the end of each fiscal year, the Board of Directors shall prepare the financial statements of the Company, in addition to a report on the activities of the Company and its financial position for the closing fiscal year and the proposed method of dividend distribution of net profits. The Board shall put these documents at the disposal of auditor of Company accounts within a minimum of forty-five (45) days from the date of General Assembly meeting. These documents shall also be signed by the Chairman of the Board of Directors, CEO and CFO, and shall be deposited at the Company's head office at the disposal of shareholders who shall be allowed to access to these documents within a minimum of twenty-one (21) days of the date of General Assembly meeting. The Chairman of the Board of Directors shall provide the shareholders with the Company's financial statements and the management report, unless they are published in a daily newspaper that shall be in circulation in the town where the Company head office is located. Copies of these documents shall also be forwarded to the Directorate General of Companies, Capital Market Authority and Saudi Central Bank at least twenty-one (21) days prior to the date of General Assembly meeting.

Article (44) Dividend Distribution

A. The Company's annual net profits after deduction of all overhead and other expenses, allowance for doubtful debts, investment losses and contingent obligations as deemed appropriate by the Board of Directors in compliance with the provisions of the Banking Control Law and directives of Saudi Central Bank, shall be distributed as follows:

1. Zakat accruals on shareholders shall be calculated and paid to competent authorities;
2. Twenty-five percent (25%) of net profits after Zakat deductions shall be carried forward to the statutory reserve until the said reserve becomes equal to a minimum of the total sum of the Company's paid up capital;
3. From the remaining profits, net of legal reserves and Zakat, a dividend distribution of a minimum of 5% (five percent) of the Company's paid up capital shall be earmarked for dividend distribution to the shareholders as recommended by the Board of Directors and approved by the General Assembly. However, if the remaining sum of net profit is found to be insufficient to pay such dividend, shareholders shall not have the right to request such distribution in the following year or years. A General Assembly shall not decide any dividend distribution that exceeds the rate recommended by the Board of Directors.
4. The remaining balance, after earmarking the sums referred to in the aforementioned paragraphs (1), (2) and (3) shall be distributed as recommended by the Board of Directors and approved by the General Assembly.

B. Subject to Paragraph (A) of this Article, relevant regulatory rules, and the non-objection of Saudi Central Bank, interim dividends shall be distributed semi-annually or quarterly.

Article (45) Dividend Eligibility

The shareholder shall be eligible to its share of the dividends under a resolution of the General Assembly issued in this regard. Such resolution shall specify the date of maturity and date of distribution. Dividends shall be eligible for the shareholders registered in the shareholders register at the end of the due date. The Company may hold the dividend due to any shareholder in order to pay the debts and obligations payable by him to the Company.

Article (46) Distribution of Dividends of Preferred Shares

1. If dividends are not distributed for any fiscal year, they shall not be distributed for the following years except after payment of the percentage prescribed under Article (114) of Companies Law for Preferred Shareholders for this year.

2. If the Company fails to pay the percentage determined under the provisions of Article (114) of Companies Law on dividends for three consecutive years, the Private Assembly of these shareholders held in accordance with the provisions of Article (89) of Companies Law may decide whether to order them to attend the Company's General Assembly Meetings and participate in voting or appoint representatives thereof in the Board of Directors in proportion to the value of their shares in the capital, until the Company can pay all the priority profits allocated to the owners of these shares for previous years.

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Chapter Eight
Disputes

Article (47) Liability Lawsuit

Each shareholder may institute liability lawsuit proceedings on behalf of the Company against members of its Board of Directors in the event that any fault on their part has inflicted a specific damage to him, provided, however, that the Company's right to institute such proceedings shall always be valid. Additionally, the shareholder concerned shall serve the Company a written notice of his intent to proceed with such lawsuit.

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Chapter Nine
Dissolution and Liquidation of the Company

Article (48) Dissolution of Company

Subject to Banking Control Law, its rules of application and relevant instructions, If the accumulated losses sustained by the Company reach half of its capital, at any time during the fiscal year, any official or auditor of the Company, who comes to know about such loss shall immediately inform the chairman of the board, who shall immediately notify the Board members. Then the Board of directors shall, within fifteen days, call for an Extraordinary General Assembly meeting that to be held within forty five days from the date on which it knows about these losses, in order to consider whether to increase or decrease the capital of the Company in accordance with the Law, and to the extent that the losses fall below half of the paid capital, or to dissolve the Company prior to the completion of its stated term for that reason, any other reason or for the expiry of its term, an Extraordinary General Assembly, upon the recommendation of the Board of Directors, shall determine the method of Company liquidation and shall appoint one or more liquidators and determine their powers and fees. The Board of Directors shall be discharged of its powers and authorities upon the completion of term of the Company. However, the Board shall continue to manage the affairs of the Company until a liquidator is appointed. Powers of the management of the Company shall be maintained to the extent that they do not contradict with the powers and authorities of the liquidators.

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Chapter Ten
Final Provisions

Article (49) Company Seal

The Board of Directors shall prepare an official seal of the Company to be affixed on all documents that are deemed necessary to seal by the Board of Directors, the Executive Committee or the Managing Director.

Article (50) Provisions of Companies Law

The provisions of the Companies Law shall govern all other terms and conditions that are not stated under this Memorandum of Association.

Article (51) Submittal

These Articles of Association shall be submitted and published in accordance with the provisions of Companies Law, the Company shall abide by Banking Control Law and its rules of application, in addition to the regulations, directives and instructions that issued by a resolution of the regulatory and executive authorities, and that are in compliance with prudent banking practices and in conformity with Islamic Shari'a provisions.

APPENDIX 2

PRONOUNCEMENT OF MEMBERS OF THE SHARI'A COMMITTEE

الراجحي المالية
Al Rajhi Capital

الهيئة الشرعية
Shariah Board

بسم الله الرحمن الرحيم

قرار رقم (٣٦٢)

السنة الثانية – الدورة الخامسة

١٤٤٤/٠٣/١٠هـ – ٢٠٢٢/١٠/٠٦م

مرفق ٢ بمحضر الاجتماع ٢٧١/٥/٢

الموضوع: إجازة وثائق إصدارات برنامج "صكوك دعم رأس المال لمصرف الراجحي (٢)" من الشق الأول بالريال السعودي المجاز بالقرار رقم (٣٥٩).

الحمد لله رب العالمين، والصلاة والسلام على نبينا محمد وعلى آله وصحبه ومن اهتدى بهديه إلى يوم الدين، أما بعد:

فإن الهيئة الشرعية لشركة الراجحي المالية في اجتماعها الواحد والسبعين بعد المئتين، في السنة الثانية، من الدورة الخامسة، في يوم الخميس ١٤٤٤/٠٣/١٠هـ والذي يوافقه ٢٠٢٢/١٠/٠٦م، عبر دوائر الاتصال المرئي، بعد اطلاعها على مذكرة العرض ذات الرقم (١٢٦٥) المعدة من أمانتها بشأن ما ورد من إدارة المصرفية الاستثمارية للنظر في حكم وثائق إصدارات برنامج "صكوك دعم رأس المال لمصرف الراجحي (٢)" من الشق الأول بالريال السعودي، وهي صكوك غير مؤقتة، وليس لها تاريخ استحقاق محدد مسبقاً، تقوم على عقد المضاربة، وتعد أحد مكونات دعم رأس مال البنك حسب متطلبات معيار بازل الثالث لكفاية رأس المال، وتتلخص هيكلتها فيما يأتي:

- **إصدار الصكوك:**

١. تصدر الجهة المنشئة "مصرف الراجحي" شهادات الصكوك، وتطرحها في اكتتاب عام، وتتولى شركة الراجحي المالية تَسلُّم ثمنها من المستثمرين، وتُعَيِّن وكيلاً عن حملة الصكوك ينوب عنهم في توقيع الاتفاقيات ذات العلاقة.

٢. يكتتب المستثمرون في صكوك "مصرف الراجحي (٢)" عن طريق إيداع مبالغ الاكتتاب في حسابات جارية باسم وكيل حملة الصكوك.

- **بدء المضاربة:**

٣. يوقع وكيل حملة الصكوك "اتفاقية المضاربة" مع مصرف الراجحي، والتي يدفع بمقتضاها وكيل حملة الصكوك -بالنيابة عنهم- متحصلات الاكتتاب إلى المضارب "مصرف الراجحي" لإدارة الأموال على سبيل المضاربة، وذلك وفق الأحكام الآتية:

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Al Rajhi Capital, Head Office
King Fahad Road - Al Muruj Dist. Tel +966 920005856
P.O. Box 5561 Riyadh 11432 customerservice@alrajhi-capital.com
Kingdom of Saudi Arabia www.alrajhi-capital.com

الراجحي المالية، مبنى الإدارة العامة
طريق الملك فهد – حي المروج هاتف
ص.ب 5561 الرياض 11432
المملكة العربية السعودية

أ) **وعاء المضاربة**: يستثمر المضارب "مصرف الراجحي" رأس مال المضاربة وفق أحكام المضاربة المطلقة على أساس خلطها مع أمواله الخاصة في أعمال المصرف، والتي يتم إجراؤها من خلال الوعاء العام للاستثمار، ويتكون الوعاء العام من: ١) حقوق مساهمي المصرف. ٢) متحصلات جميع الحسابات لدى المصرف (الجارية، الاستثمارية). ٣) أي مصدر آخر للأموال يدرجه المصرف في الوعاء العام للاستثمار من وقت لآخر. ٤) رأس مال المضاربة.

ب) **مدة المضاربة**: تبدأ المضاربة في تاريخ دفع رأس مال المضاربة من قبل وكيل حملة الصكوك "رب المال" إلى مصرف الراجحي "المضارب"، وتكون هذه المضاربة مستمرة بينهما وغير مقيدة بمدة، وتنتهي في تاريخ استرداد الصكوك كليًّا.

ت) **أرباح المضاربة وخسائرها**: يستحق كلٌّ من المضارب ورب المال نسبة مشاعة من الربح، ويقتسم كل من حملة الصكوك "رب المال" والجهة المنشئة "المضارب" أرباح المضاربة المحققة (بعد خصم حصة المشروع من الأرباح بالنسبة والتناسب مع أصوله الأخرى المختلطة في الوعاء العام)، وفقاً للنسبة المتفق عليها: (٩٠% لحملة الصكوك - ١٠% للمضارب). ويتحمل حملة الصكوك "رب المال" ما يقع من خسارة في وعاء المضاربة، ما لم يكن ناشئاً عن تعدي الجهة المنشئة "المضارب" أو تفريطها.

- **توزيع أرباح المضاربة:**

٤. يدفع المضارب "مصرف الراجحي" من أرباح المضاربة المحققة لحملة الصكوك بمقدار المؤشر المتفق عليه بين الطرفين "معدل التوزيع الدوري"، وفقاً للأحكام الآتية:

أ) إذا تجاوزت الأرباح المحققة لوعاء المضاربة معدل التوزيع الدوري، فإن المبالغ الزائدة توضع في الحساب الاحتياطي، تحسباً لوقوع عجز في التوزيعات الدورية اللاحقة، ويعد هذا الاحتياطي جزءاً من أصول الصكوك. ولا يحق للمضارب استخدام مبالغ الحساب الاحتياطي لمصلحته الخاصة، وإنما تستخدم بغرض: (١) تغطية أي عجز أو (٢) استثمارها من جديد في وعاء المضاربة.

ب) إذا نقصت الأرباح المحققة لوعاء المضاربة عن معدل التوزيع الدوري، فيجوز للمضارب "مصرف الراجحي" (من غير إلزام له) توفير الأموال اللازمة لتغطية العجز في مبلغ التوزيع الدوري.

ت) لا يحق للجهة المنشئة "المضارب" في حال وقوع إحدى حالات (عدم الدفع) أن يدفع مبالغ التوزيع الدوري لحملة الصكوك، وتتمثل حالات عدم الدفع في: ١) تجاوز الالتزامات المتكافئة والالتزامات الثانوية في التاريخ ذي الصلة لمبلغ التوزيع الدوري. ٢) إخلال الجهة المنشئة في تاريخ التوزيع الدوري أو تاريخ انتهاء المضاربة بمتطلبات رأس المال القانونية المعمول بها. ٣) منع المنظم المالي للجهة المنشئة من دفع مبلغ التوزيع الدوري بسبب تكبد المصرف صافي خسارة خلال الفترة المالية ذات الصلة أو لأي سبب آخر.

ث) يحق للمضارب الامتناع عن دفع التوزيعات الدورية لحملة الصكوك في موعد منها أو أكثر (اختيار عدم الدفع)، ويستثنى من ذلك آخر مبلغ توزيع دوري مستحق قبل الإنهاء.

ج) إذا قرر المضارب عدم دفع مبلغ التوزيع الدوري بسبب إحدى حالات (عدم الدفع) أو (اختيار عدم الدفع) فلا يحق لحملة الصكوك -أو من ينوب عنهم- المطالبة بدفعها، ويلتزم المضارب بحفظ مبلغ التوزيع الدوري غير المدفوع في الحساب الاحتياطي المملوك لحملة الصكوك.

ح) لا يحق للمضارب "مصرف الراجحي" عند عدم دفعه لمبلغ التوزيع الدوري لحملة الصكوك في الموعد المتفق عليه بسبب وقوع (حالة عدم الدفع) أو (اختيار عدم الدفع) أن يوزع أرباحاً على حملة الأسهم أو يعلن عن ذلك، كما لا يحق له استرداد أو شراء أو إلغاء أو تخفيض أو الاستحواذ على أي أسهم أو أوراق مالية تقع في مرتبة مساوية للصكوك، وذلك إلى أن يتم سداد كامل الدفعة التالية للتوزيعات الدورية للصكوك، أو أن يتم تجنيب مبلغ مساو لتلك الدفعة.

- **انتهاء المضاربة:**

٥. تعتبر صكوك الشق الأول صكوكاً غير محددة المدة، ويحق للجهة المنشئة "المضارب" إنهاؤها في أحد الحالات الآتية:

أ) تاريخ الاستدعاء الأول، والذي يقع بعد ٥ سنوات من تاريخ عقد المضاربة، أو أي تاريخ توزيع دوري بعد ذلك.

ب) وقوع حدث ضريبي، وذلك بتغيير نظام الضرائب بما يترتب عليه دفع الجهة المنشئة لمبالغ إضافية بصفتها مضارباً.

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ت) حدوث حالة تتعلق برأس المال التنظيمي، وهو أن يصدر إخطار كتابي من الجهة التنظيمية المالية "البنك المركزي" إلى المضارب "مصرف الراجحي" بأن القيمة الاسمية غير المسددة للصكوك قد استبعدت كلياً أو جزئياً من رأس مال الشق الأول.

٦. يجري إنهاء المضاربة في الحالات السابقة على أساس التصفية الحكمية لأصول المضاربة، بحيث تُسترد الصكوك بمقدار رأس مال تصفية المضاربة ومبلغ التوزيع الدوري الأخير، وما زاد عن ذلك فلحملة الصكوك التنازل عنه كحافز تشجيعي للمضارب "مصرف الراجحي"، وفي حال أن مبلغ التصفية الذي سيتم إعادته لحملة الصكوك أقل من رأس مال المضاربة فحينئذ يكون المضارب مخيراً بين أمرين:

- الاستمرار في استثمار رأس مال المضاربة، وعدم تصفية الصكوك.
- تصفية المضاربة وتعويض حملة الصكوك بمقدار النقص الحاصل في رأس المال عن طريق تحويل عائدات تصفية المضاربة (التي تساوي مجموع: (١) رأس مال المضاربة، (٢) مبلغ التوزيع الدوري النهائي) إلى حملة الصكوك، وفي حال عدم السداد الكلي أو الجزئي لمبلغ التمويل المقدم من المضارب بغرض سد عجز التوزيعات الدورية فيتم خصم المبلغ -أو المتبقي منه- من عائدات تصفية المضاربة قبل تحويلها لحملة الصكوك.

٧. عند إفلاس الجهة المنشئة "المضارب" أو إخلالها بالتزاماتها التعاقدية لحملة الصكوك (كعدم دفع مبلغ التوزيع الدوري في غير حالتي "عدم الدفع" و"اختيار عدم الدفع") فلحملة الصكوك طلب إقامة إجراءات لمتحصلات التصفية، ويترتب على ذلك حقهم في استرداد رأس مال المضاربة؛ ومبالغ التوزيع الدوري؛ وأي مدفوعات أخرى مستحقة وواجبة السداد لهم.

- **الشطب في حالة عدم الاستمرارية:**

٨. عند وصول الجهة المنشئة "المضارب" إلى حالة عدم الاستمرار (وفقاً لشروط وأحكام الصكوك ووفقاً للمتطلبات النظامية لرأس المال في المملكة العربية السعودية)؛ فتعد حقوق حملة الصكوك قد شطبت بشكل نهائي وغير مشروط بالنسبة والتناسب مع المبلغ المشطوب، وإذا كان مبلغ الشطب مساوياً لكامل القيمة الإسمية للصكوك فيتم إلغاء الصكوك بشكل دائم، ويمنح حملة الصكوك

حقوقهم بموجب المضاربة للمضارب، بحيث تساوي قيمة أصول المضاربة عندئذ صفراً، ولن يكون لحملة الصكوك تقديم أي مطالبات أخرى على المضارب "مصرف الراجحي".

- **وثائق الصكوك:**

١) **نشرة الإصدار**: وتتضمن مجموعة من العناصر: كالشروط والأحكام الخاصة بالصكوك، ووصف أعمال المصرف، واستخدام المتحصلات، وعوامل المخاطرة، والمعلومات المالية، ونحوها.

٢) **إعلان الوكالة الرئيس**: وتوقع بين شركة الراجحي المالية، ومصرف الراجحي بصفته (مصدر الصكوك)، والغرض منها تنظيم تعيين شركة الراجحي المالية وكيلاً عن حملة الصكوك.

٣) **اتفاقية المضاربة الرئيسة**: وتوقع بين شركة الراجحي المالية –نيابة عن حملة الصكوك– بصفتها (رب المال) ومصرف الراجحي بصفته (المضارب)، والغرض منها تنظيم حقوق والتزامات الطرفين في استثمار متحصلات الصكوك وفق عقد المضاربة.

٤) **اتفاقية إدارة الدفعات**: وتوقع بين شركة الراجحي المالية بصفتها (وكيل حملة الصكوك)، والراجحي المالية بصفته (مسؤول الدفع) و(بنك الحساب)، ومصرف الراجحي بصفته (مصدر الصكوك)، والغرض منها ترتيب إجراءات إدارة المدفوعات المتعلقة بالصكوك.

٥) **اتفاقية البرنامج**: وتوقع بين شركة الراجحي المالية بصفتها (مدير الاكتتاب)، ومصرف الراجحي بصفته (مصدر الصكوك)، والغرض منها ترتيب إجراءات الاكتتاب في الصكوك.

وبعد دراسة الهيئة لهيكلة الصكوك ووثائقها في اجتماعها ذي الرقم (٢٦٩) بتاريخ ١٤٤٤/٠٢/٠٩هـ، واجتماعها ذي الرقم (٢٧١) بتاريخ ١٤٤٤/٠٣/١٠هـ والمرفقة بتوجيه الهيئة رقم (١١٥٧) وتوجيه الهيئة رقم (١١٦٠).

وبعد الاطلاع على قرار الهيئة الشرعية رقم (٢٩٧) بشأن: "إجازة هيكلة صكوك دعم رأس المال لمصرف الراجحي من الشق الأول بالريال السعودي"، وبعد الاطلاع على قرار الهيئة الشرعية رقم (٣٠٥) بشأن: "إجازة وثائق صكوك دعم رأس المال لمصرف الراجحي من الشق الأول بالريال السعودي المجاز بالقرار رقم (٢٩٧)"، وبعد الاطلاع على قرار الهيئة الشرعية رقم (٣٥٩) بشأن: إجازة هيكلة إصدارات برنامج "صكوك دعم رأس المال لمصرف الراجحي (٢)" من الشق الأول بالريال السعودي.

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وبعد الاطلاع على المعيار الشرعي رقم (١٧) بشأن: "صكوك الاستثمار"، والمعيار الشرعي رقم (٣٩) بشأن: "الرهن وتطبيقاته المعاصرة" الصادرين عن المجلس الشرعي لهيئة المحاسبة والمراجعة للمؤسسات المالية الإسلامية، وبعد الاطلاع على توصيات مؤتمر هيئة المراجعة والمحاسبة السادس عشر للهيئات الشرعية بشأن: "صكوك الشريحة الأولى من رأس المال، وفق معايير بازل".

وبعد الاطلاع على قرار مجمع الفقه الإسلامي الدولي ذي الرقم (١٢٣) بشأن: "القراض أو المضاربة المشتركة في المؤسسات المالية الإسلامية"، وبعد الاطلاع على المعيار الشرعي رقم (١٣) بشأن: "المضاربة"، والمعيار الشرعي رقم (١٢) بشأن: "الشركة والشركات الحديثة"، والمعيار الشرعي رقم (٤٠) بشأن: "الحسابات الاستثمارية وتوزيع الربح"، الصادرة عن المجلس الشرعي لهيئة المحاسبة والمراجعة للمؤسسات المالية الإسلامية.

وبعد الاطلاع على القرار الرابع لمجمع الفقهي الإسلامي التابع لرابطة العالم الإسلامي في دورته السادسة عشرة بشأن: "التنضيض الحكمي"، وبعد الاطلاع على الفتوى الثانية من الحلقة العلمية الثانية لندوة البركة بشأن: "التنضيض الحكمي بطريق التقويم وفقاً للمعايير المحاسبية المتاحة". وبعد الاطلاع على قرار مجلس إدارة الهيئة السعودية للمراجعين والمحاسبين بشأن تطبيق معايير المحاسبة الدولية على القوائم المالية المعدة عن فترات مالية تبدأ في ٢٠١٧/٠١/٠١م، بالنسبة للمنشآت المدرجة في السوق المالية.

وبعد الاطلاع على معيار الحوكمة رقم (١٢) بشأن: "حوكمة الصكوك" الصادر عن مجلس الحوكمة والأخلاقيات التابع لهيئة المراجعة والمحاسبة للمؤسسات المالية الإسلامية.

وبعد الدراسة والنظر والمناقشة، **قررت** الهيئة ما يأتي:

أولاً: إجازة الوثائق الآتية لإصدارات برنامج "صكوك دعم رأس المال لمصرف الراجحي (٢)": "نشرة الإصدار"، "إعلان الوكالة الرئيس"، "اتفاقية المضاربة الرئيسة"، "اتفاقية إدارة الدفعات"، "اتفاقية البرنامج".

ثانياً: الغرض من هذا القرار بيان الحكم الشرعي وفق ما تراه الهيئة الشرعية، ولا يقصد به التوصية بالاكتتاب في الصكوك أو تداولها، ويتحمل المستثمر مسؤولية قراره بالاستثمار فيها من عدمه.

ثالثاً: أصدرت الهيئة هذا القرار بناء على ما اطلعت عليه من هيكلة الصكوك والوثائق والاتفاقيات المتعلقة بها، ولا تسري هذه الموافقة على أي تعديلات قد تطرأ عليها، ويجب على الجهة المعنيّة عرض أي تعديلات لاحقة على الهيئة الشرعية لاعتمادها.

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الراجحي المالية
Al Rajhi Capital

الهيئة الشرعية
Shariah Board

رابعاً: على الجهة المعنية تزويد الهيئة الشرعية بوثائق كلّ إصدار من الإصدارات المندرجة تحت هذا البرنامج على حدة، ولا يكتفى بهذا القرار في اعتماد وثائق الإصدارات الأخرى.

وصلى الله وسلم على نبينا محمد وعلى آله وصحبه.

الهيئة الشرعية

د. سليمان بن عبد الله اللحيدان (عضواً)

د. سعد بن تركي الخثلان (عضواً)

د. صالح بن منصور الجربوع (رئيساً)

APPENDIX 3

FINANCIAL STATEMENTS AND AUDITOR'S REPORT

This section contains the Issuer's audited Financial Statements as at and for the year ended 31 December 2021G, 31 December 2020G and 31 December 2019G and the unaudited Interim Financial Statements for the six months ended 30 June 2022G. The Annual Financial Statements have been audited by KPMG and EY as stated in their audit reports included elsewhere in this Base Prospectus.

AL RAJHI BANKING AND INVESTMENT CORPORATION
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
As of and for the six-month period ended 30 June 2022

KPMG Professional Services
Riyadh Front
Airport Road
P.O. Box 92876
Riyadh 11663
Kingdom of Saudi Arabia
Headquarters in Riyadh

EY
Building a better working world

Ernst & Young Professional Services
(Professional LLC)
Paid-up capital (SR 5,500,000 – Five million five hundred thousand Saudi Riyal)
Head Office
Al Faisaliah Office Tower, 14th Floor
King Fahad Road
P.O. Box 2732
Riyadh 11461
Kingdom of Saudi Arabia

C.R. No. 1010383821
Tel: +966 11 215 9898
+966 11 273 4740
Fax: +966 11 273 4730
ey.ksa@sa.ey.com
ey.com

Independent auditors' review report on the interim condensed consolidated financial statements

To: The Shareholders of
Al Rajhi Banking and Investment Corporation
(A Saudi Joint Stock Company)

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of **Al Rajhi Banking and Investment Corporation** (the "Bank") and its subsidiaries (collectively referred to as the "Group") as at 30 June 2022, and the interim condensed consolidated statements of income and comprehensive income for the three-month and the six-month periods then ended, and the interim condensed consolidated statements of changes in shareholders' equity and cash flows for the six-month period then ended, and other explanatory notes (the "interim condensed consolidated financial statements"). Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34 'Interim Financial Reporting" ("IAS 34") as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

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

Other regulatory matters

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

KPMG Professional Services

Khalil Ibrahim Al Sedais
Certified Public Accountant
License no. 371

Ernst and Young Professional Services

Waleed G. Tawfiq
Certified Public Accountant
License no. 437

05 Muharram 1444H
(03 August 2022)

KPMG Professional Services
(Professional Closed Joint Stock Company)
Paid-up capital SR 25,000,000
C.R. No. 1010425494

AL RAJHI BANKING AND INVESTMENT CORPORATION (A SAUDI JOINT STOCK COMPANY)

Interim Condensed Consolidated Statement of Financial Position (Unaudited)

(SAR'000)

As at	Notes	30 June 2022 (Unaudited)	31 December 2021 (Audited)	30 June 2021 (Unaudited)
Assets				
Cash and balances with Central Banks	3	**37,713,730**	40,363,449	36,913,810
Due from banks and other financial institutions, net	4	**29,412,157**	26,065,392	26,212,976
Investments, net	5	**96,290,764**	84,138,142	74,201,967
Financing, net	7	**519,700,730**	452,830,657	390,295,755
Investment in associate		**327,439**	295,253	271,904
Investment properties, net		**1,378,310**	1,411,469	1,528,252
Property and equipment, net		**11,238,795**	10,665,799	10,473,335
Other assets, net		**13,717,122**	7,901,754	6,241,238
Total assets		**709,779,047**	623,671,915	546,139,237
Liabilities and equity				
Liabilities				
Due to banks and other financial institutions	8	**42,532,024**	17,952,140	14,085,256
Customers' deposits	9	**552,956,842**	512,072,213	447,506,182
Other liabilities		**32,376,998**	26,338,711	24,877,728
Total liabilities		**627,865,864**	556,363,064	486,469,166
Equity				
Share capital	16	**40,000,000**	25,000,000	25,000,000
Statutory reserve		**25,000,000**	25,000,000	25,000,000
Other reserves	11	**(244,528)**	309,394	476,653
Retained earnings		**10,657,711**	16,999,457	9,193,418
Equity attributable to shareholders of the Bank		**75,413,183**	67,308,851	59,670,071
Tier 1 Sukuk	19	**6,500,000**	-	-
Total equity		**81,913,183**	67,308,851	59,670,071
Total liabilities and equity		**709,779,047**	623,671,915	546,139,237

The accompanying notes from 1 to 25 form an integral part of these interim condensed consolidated financial statements.

Authorized Board Member | Chief Executive Officer | Chief Financial Officer

2

AL RAJHI BANKING AND INVESTMENT CORPORATION (A SAUDI JOINT STOCK COMPANY)
Interim Condensed Consolidated Statement of Income (Unaudited)
(SAR'000)

	Notes	For the three–month ended 30 June 2022	2021	For the six–month ended 30 June 2022	2021
Income					
Gross financing and investment income		**6,479,892**	5,243,319	**12,370,714**	10,157,896
Gross financing and investment return		**(913,129)**	(191,541)	**(1,463,779)**	(335,571)
Net financing and investment income		**5,566,763**	5,051,778	**10,906,935**	9,822,325
Fee from banking services, net		**1,162,721**	934,297	**2,310,420**	1,843,096
Exchange income, net		**307,632**	183,900	**544,623**	359,384
Other operating income, net		**110,742**	166,343	**342,444**	259,093
Total operating income		**7,147,858**	6,336,318	**14,104,422**	12,283,898
Expenses					
Salaries and employees' related benefits		**804,490**	780,161	**1,609,685**	1,537,799
Depreciation and amortization		**342,032**	281,009	**643,772**	539,402
Other general and administrative expenses		**673,688**	668,751	**1,335,658**	1,304,378
Total operating expenses before credit impairment charge		**1,820,210**	1,729,921	**3,589,115**	3,381,579
Impairment charge for financing and other financial assets, net	7	**580,420**	583,967	**1,158,725**	1,160,956
Total operating expenses		**2,400,630**	2,313,888	**4,747,840**	4,542,535
Net income for the period before Zakat		**4,747,228**	4,022,430	**9,356,582**	7,741,363
Zakat Expense	12	**(488,924)**	(417,743)	**(964,732)**	(801,191)
Net income for the period		**4,258,304**	3,604,687	**8,391,850**	6,940,172
Basic and diluted earnings per share (SAR)	17	**1.05**	0.90	**2.08**	1.74

The accompanying notes from 1 to 25 form an integral part of these interim condensed consolidated financial statements.

Authorized Board Member | Chief Executive Officer | Chief Financial Officer

3

AL RAJHI BANKING AND INVESTMENT CORPORATION (A SAUDI JOINT STOCK COMPANY)

Interim Condensed Consolidated Statement of Comprehensive Income (Unaudited)

(SAR'000)

	For the three–month ended 30 June		For the six–month ended 30 June	
	2022	2021	**2022**	2021
Net income for the period	**4,258,304**	3,604,687	**8,391,850**	6,940,172
Other comprehensive income				
Items that will not be reclassified to the interim consolidated statement of income in subsequent periods:				
- Net change in fair value (FVOCI equity investment)	**(1,074,663)**	286,109	**(593,973)**	565,604
- Re–measurement of employees' end of service benefits liabilities ("ESOB")	**158,712**	48,810	**158,712**	48,810
Items that may be reclassified to the interim consolidated statement of income in subsequent periods:				
- Exchange difference on translating foreign operations	**(31,777)**	585	**(74,874)**	(19,119)
- Net change in fair value (FVOCI Sukuk investment)	**(14,894)**	-	**(51,200)**	-
- Share in FVOCI from associate	**9,704**	7,735	**7,413**	16,086
Total other comprehensive income for the period recognized in the shareholders' equity	**(952,918)**	343,239	**(553,922)**	611,381
Total comprehensive income for the period	**3,305,386**	3,947,926	**7,837,928**	7,551,553

The accompanying notes from 1 to 25 form an integral part of these interim condensed consolidated financial statements.

Authorized Board Member | Chief Executive Officer | Chief Financial Officer

AL RAJHI BANKING AND INVESTMENT CORPORATION (A SAUDI JOINT STOCK COMPANY)

Interim Condensed Consolidated Statement of Changes in Shareholders' Equity (Unaudited)

(SAR'000)

For six-month period ended 30 June 2022	Notes	Share capital	Statutory reserve	Other reserves	Retained earnings	Total equity attributable to shareholders of the Bank	Tier 1 Sukuk	Total equity
31 December 2021		25,000,000	25,000,000	309,394	16,999,457	67,308,851	-	67,308,851
Net income for the period		-	-	-	8,391,850	8,391,850	-	8,391,850
Net change in fair value of FVOCI Equity investments		-	-	(13,556)	-	(13,556)	-	(13,556)
Net change in fair value of FVOCI Sukuk investments		-	-	(51,200)	-	(51,200)	-	(51,200)
Share in OCI from associate		-	-	7,413	-	7,413	-	7,413
Actuarial gain on employees' end of service benefits ("EOSB")		-	-	158,712	-	158,712	-	158,712
Proceed FVOCI equity		-	-	(580,417)	-	(580,417)	-	(580,417)
Exchange difference on translation of foreign operations		-	-	(74,874)	-	(74,874)	-	(74,874)
Net other comprehensive income recognized in shareholders' equity		-	-	(553,922)	-	(553,922)	-	(553,922)
Total comprehensive income for the period		-	-	(553,922)	8,391,850	7,837,928	-	7,837,928
Proceed FVOCI equity		-	-	-	323,515	323,515	-	323,515
Tier 1 Sukuk issued	19	-	-	-	-	-	6,500,000	6,500,000
Tier 1 Sukuk related cost	19	-	-	-	(57,111)	(57,111)	-	(57,111)
Bonus shares Issued	18	15,000,000	-	-	(15,000,000)	-	-	-
Balance at 30 June 2022		**40,000,000**	**25,000,000**	**(244,528)**	**10,657,711**	**75,413,183**	**6,500,000**	**81,913,183**
For six-month period ended 30 June 2021								
Balance at 31 December 2020		25,000,000	25,000,000	(134,728)	8,253,246	58,118,518	-	58,118,518
Net income for the period		-	-	-	6,940,172	6,940,172	-	6,940,172
Net change in fair value of FVOCI investments		-	-	565,604	-	565,604	-	565,604
Share in OCI from associate		-	-	16,086	-	16,086	-	16,086
Actuarial gain on employees' end of service benefits ("EOSB")		-	-	48,810	-	48,810	-	48,810
Exchange difference on translation of foreign operations		-	-	(19,119)	-	(19,119)	-	(19,119)
Net other comprehensive income recognized in shareholders' equity		-		611,381	-	611,381	-	611,381
Total comprehensive income for the period		-	-	611,381	6,940,172	7,551,553	-	7,551,553
Dividend for annual year 2020		-	-	-	(2,500,000)	(2,500,000)	-	(2,500,000)
Interim Dividend for the first half of 2021		-	-	-	(3,500,000)	(3,500,000)	-	(3,500,000)
Balance at 30 June 2021		25,000,000	25,000,000	476,653	9,193,418	59,670,071	-	59,670,071

The accompanying notes from 1 to 25 form an integral part of these interim condensed consolidated financial statements

Authorized Board Member

Chief Executive Officer

Chief Financial Officer

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مصرف الراجحي
alrajhi bank

AL RAJHI BANKING AND INVESTMENT CORPORATION (A SAUDI JOINT STOCK COMPANY)

Interim Condensed Consolidated Statement of Cash Flows (Unaudited)

(SAR'000)

For the period ended 30 June	Note	2022	2021
Cash Flows from operating activities			
Income before Zakat		**9,356,582**	7,741,363
Adjustments to reconcile net income to net cash from operating activities:			
Loss/(gain) on investments held at fair value through statement of income (FVIS)		**45,773**	(42,033)
Depreciation and amortization		**610,613**	526,443
Depreciation on investment properties		**33,159**	12,959
(Gain)/ loss on sale of property and equipment, net		**(746)**	8,511
Impairment charge for financing and other financial assets, net	7	**1,158,725**	1,160,956
Share in profit of an associate		**(1,353)**	(32,726)
Increase in operating assets			
Statutory deposit with SAMA and other central banks		**(1,187,663)**	(4,015,070)
Due from banks and other financial institutions		**5,669,657**	(1,107,030)
Financing		**(68,028,798)**	(75,744,610)
FVIS investments		**(311,195)**	(535,159)
Other assets, net		**(5,740,493)**	(1,226,369)
Decrease in operating liabilities			
Due to banks and other financial institutions		**24,579,884**	3,321,195
Customers' deposits		**40,884,629**	64,875,179
Other liabilities		**7,733,865**	6,936,208
Zakat paid		**(1,695,578)**	(1,221,071)
Net cash generated from operating activities		**13,107,061**	658,746

The accompanying notes from 1 to 25 form an integral part of these interim condensed consolidated financial statements.

Authorized Board Member | Chief Executive Officer | Chief Financial Officer

AL RAJHI BANKING AND INVESTMENT CORPORATION (A SAUDI JOINT STOCK COMPANY)

Interim Condensed Consolidated Statement of Cash Flows (Unaudited)

(SAR'000)

For the period ended 30 June	Note	2022	2021
Cash flows from investing activities			
Purchase of property and equipment		**(1,206,233)**	(848,990)
Proceeds from disposal of property and equipment		**24,116**	75,486
Purchase of FVOCI investments		**-**	(922,240)
Proceeds from disposal of FVOCI investments		**2,829,836**	178,363
Proceeds from maturities of investments held at amortised cost		**8,529,175**	1,067,977
Purchase of investments held at amortised cost		**(24,529,355)**	(15,703,144)
Net cash used in investing activities		**(14,352,461)**	(16,152,548)
Cash flows from financing activities			
Dividends paid		**-**	(2,500,000)
Tier 1 Sukuk payments		**(57,111)**	-
Tier 1 Sukuk issuance		**6,500,000**	-
Payment against lease obligation		**(18,449)**	(18,876)
Net cash generated from / (used in) financing activities		**6,424,440**	(2,518,876)
Net decrease in cash and cash equivalents		**5,179,040**	(18,012,678)
Cash and cash equivalents at the beginning of the period	13	**24,296,788**	34,086,995
Cash and cash equivalents at end of the period	13	**29,475,828**	16,074,317

The accompanying notes from 1 to 25 form an integral part of these interim condensed consolidated financial statements.

Authorized Board Member | Chief Executive Officer | Chief Financial Officer

1 - General

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

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

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

The objectives of the Bank are to carry out banking and investment activities in accordance with its Articles of Association and By-laws, the Banking Control Law and the Council of Ministers Resolution referred to above. The Bank is engaged in banking and investment activities for its own account and on behalf of others inside and outside the Kingdom of Saudi Arabia ("KSA") through its network branches and subsidiaries. The Bank has established certain subsidiary companies (together with the Bank hereinafter referred to as the "Group") in which it owns all or the majority of their shares [Also see Note 2(b)]:

Shari'a Authority

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

The Bank is regulated by the Saudi Central Bank (SAMA).

2 - Summary of significant accounting policies

(a) Basis of preparation

The interim condensed consolidated financial statements of the Group as at and for the period ended 30 June 2022 and 2021 have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA"). The interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2021.

The consolidated financial statements of the Group as at and for the year ended 31 December 2021, were prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the SOCPA.

The preparation of these interim, condensed consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities and income and expense. Actual results may differ from these estimates. In preparing these interim condensed consolidated financial statements, the significant judgements made by management in applying the accounting policies and the key sources of estimation of uncertainty were the same as those that applied to the annual consolidated financial statements as of and for the year ended December 31, 2021, except as disclosed note 2.e below.

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

2 - Summary of significant accounting policies (Continued)

(b) Basis of consolidation

The interim condensed consolidated financial statements include the financial statements of the Bank and the financial statements of the subsidiaries, as stated in note 2.c below (collectively referred to as the "Group" in these interim condensed consolidated financial statements). The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies. Adjustments have been made to the interim condensed consolidated financial statements of the subsidiaries, where necessary, to align with the Bank's interim condensed consolidated financial statements.

Subsidiaries are the investees that are controlled by the Group. The Group controls an investee only when it has:

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

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

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

The Group re-assesses whether or not it controls an investee entity if facts and circumstances indicate that there are changes to one or more elements of control. Subsidiaries are consolidated from the date on which the control is transferred to the Group and cease to be consolidated from the date on which the control is transferred from the Group. The results of subsidiaries acquired or disposed of during the period, if any, are included in the interim condensed consolidated financial statements 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 the consolidated statement of income; and
- Reclassifies the Group's share of components previously recognised in other comprehensive income to the consolidated statement of income or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Intra-group balances and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the interim condensed consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

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

(SAR'000)

2 - Summary of significant accounting policies (Continued)

(c) Subsidiaries

Name of subsidiaries	Shareholding 2022	Shareholding 2021	
Al Rajhi Capital Company – KSA	**100%**	100%	A Saudi Closed Joint Stock Company authorized by the Capital Market Authority to carry on securities business in the activities of Dealing/brokerage, Managing assets, Advising, Arranging, and Custody.
Management and Development for Human Resources Company – KSA	**100%**	100%	A limited liability company registered in Kingdom of Saudi Arabia to provide recruitment services.
Al Rajhi Bank – Kuwait	**100%**	100%	A foreign branch registered with the Central Bank of Kuwait.
Al Rajhi Bank – Jordan	**100%**	100%	A foreign branch operating in Hashemite Kingdom of Jordan, providing all financial, banking, and investments services and importing and trading in precious metals and stones in accordance with Islamic Sharia'a rules and under the applicable banking law.
Tuder Real Estate Company – KSA	**100%**	100%	A limited liability company registered in Kingdom of Saudi Arabia to support the mortgage programs of the Bank through transferring and holding the title deeds of real estate properties under its name on behalf of the Bank, collection of revenue of certain properties sold by the Bank, provide real estate and engineering consulting services, provide documentation service to register the real estate properties and overseeing the evaluation of real estate properties.
Al Rajhi Corporation Limited – Malaysia	**100%**	100%	A licensed Islamic Bank under the Islamic Financial Services Act 2013, incorporated and domiciled in Malaysia.
Emkan Finance Company – KSA	**100%**	100%	A closed joint stock company registered in the Kingdom of Saudi Arabia providing micro consumer financing, finance lease and small and medium business financing.

(SAR'000)

2 - Summary of significant accounting policies (Continued)

(c) Subsidiaries (Continued)

Name of subsidiaries	Shareholding 2022	Shareholding 2021	
Tawtheeq Company – KSA	**100%**	100%	A closed joint stock company registered in Kingdom of Saudi Arabia providing financial leasing contracts registration to organize contracts data and streamline litigation processes.
Al Rajhi Financial Markets Ltd	**100%**	100%	A Limited Liability Company registered in the Cayman Islands with the objective of managing certain treasury related transactions on behalf of the Bank.
International Digital Solutions Co. (Neoleap)	**100%**	100%	A closed joint stock company owned by the Bank for the purpose of practicing technical work in financial services, digital payment systems, financial settlements and related services.
Ejada System Limited Co.	**100%**	-	A Saudi Limited Liability owned by Alrajhi bank for the purpose of providing professional, scientific, technological activities, information communication services, and system analysis and senior management consultation services.

(d) Acquisition of Ejada System Limited Company

On 1 February 2022, the Group completed the process and legal formalities of the acquisition of the entire shares of Ejada Systems Limited (a Saudi limited liability company) that is a leading IT service provider within the Kingdom of Saudi Arabia and Region. This is a strategic move of Al Rajhi Bank as a Group to have the necessary initiatives towards the financial digital transformation, and subsidizing its customers and markets with innovative ecosystem solutions. Refer to note 23 for further details on business combination.

(e) Changing in accounting policies due to adoption of new standards, international and amendments adopted by the Group

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2022 which had no material impact on the Group consolidated financial statements. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. Several amendments apply for the first time in 2022, but do not have an impact on the interim condensed consolidated financial statements of the Group.

(SAR'000)

2 - Summary of significant accounting policies (Continued)

(e) Changing in accounting policies due to adoption of new standards, international and amendments adopted by the Group (Continued)

The Following standards, interpretations or amendments are effective from the current year and are adopted by the Group, however, these do not have any significant impact on the interim condensed consolidated financial statements of the period unless otherwise stated below:

Standard, interpretation and amendments	Description	Effective date
Amendment to IFRS 16, 'Leases' – COVID-19 related rent concessions Extension of the practical expedient	As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. In May 2020, the IASB published an amendment to IFRS 16 that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. On 31 March 2021, the IASB published an additional amendment to extend the date of the practical expedient from 30 June 2021 to 30 June 2022. Lessees can select to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the periods in which the event or condition that triggers the reduced payment occurs.	Annual periods beginning on or after 1 April 2022
A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16	Amendments to IFRS 3, 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. Amendments to IAS 16, 'Property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in statement of income. Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be loss-making. Annual improvements make minor amendments to IFRS 1, 'First-time Adoption of IFRS', IFRS 9, 'Financial instruments', IAS 41, 'Agriculture' and the Illustrative Examples accompanying IFRS 16, 'Leases'.	Annual periods beginning on or after 1 January 2022.
Amendments to IAS 1, Presentation of financial statements', on classification of liabilities	These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability. Note that the IASB has issued a new exposure draft proposing changes to this amendment.	Deferred until accounting periods starting not earlier than 1 January 2024

(SAR'000)

2 - Summary of significant accounting policies (Continued)

(e) Changing in accounting policies due to adoption of new standards, international and amendments adopted by the Group (Continued)

The International Accounting Standard Board (IASB) has issued following accounting standards, amendments, which will become effective from periods beginning on or after 1 January 2023. The Group has opted not to early adopt these pronouncements and they do not have a significant impact on the interim condensed consolidated financial statements of the Group.

Standard, interpretation and amendments	Description	Effective date
Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8	The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.	Annual periods beginning on or after 1 January 2023.
IFRS 17, 'Insurance contracts', as amended in June 2020	This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.	Annual periods beginning on or after 1 January 2023.
A narrow-scope amendment to the transition requirements in IFRS 17 Insurance Contracts	The amendment relates to insurers' transition to the new Standard only—it does not affect any other requirements in IFRS 17. IFRS 17 and IFRS 9 Financial Instruments have different transition requirements. For some insurers, these differences can cause temporary accounting mismatches between financial assets and insurance contract liabilities in the comparative information they present in their financial statements when applying IFRS 17 and IFRS 9 for the first time. The amendment will help insurers to avoid these temporary accounting mismatches and, therefore, will improve the usefulness of comparative information for investors. It does this by providing insurers with an option for the presentation of comparative information about financial assets.	Annual periods beginning on or after 1 January 2023.
Amendment to IAS 12- deferred tax related to assets and liabilities arising from a single transaction	The amendment will help to avoid these temporary accounting mismatches and, therefore, will improve the usefulness of comparative information for investors. It does this by providing insurers with an option for the presentation of comparative information about financial assets. These amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences.	Annual periods beginning on or after 1 January 2023.

(SAR'000)

3 - Cash and balances with Saudi Central Banks

Cash and balances with Saudi Central Bank ("SAMA") and other central banks comprise of the following:

	30 June 2022	31 December 2021	30 June 2021
Cash in hand	**5,985,798**	5,445,994	7,397,518
Statutory deposit	**29,991,193**	28,803,530	27,474,610
Balances with central banks (current accounts)	**776,832**	314,005	718,682
Mutajara with SAMA	**959,907**	5,799,920	1,323,000
Total	**37,713,730**	40,363,449	36,913,810

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

4 - Due from banks and other financial institutions, net

Due from banks and other financial institutions comprise the following:

	30 June 2022	31 December 2021	30 June 2021
Current accounts	**14,179,193**	2,056,541	1,117,039
Mutajara	**15,236,774**	24,013,126	25,111,188
Less: Allowance for expect credit losses	**(3,810)**	(4,275)	(15,251)
Total	**29,412,157**	26,065,392	26,212,976

(SAR'000)

5 - Investments, net

(a) Investments comprise the following:

	30 June 2022	31 December 2021	30 June 2021
Investments held at amortized cost			
Murabaha with Saudi Government and SAMA	**22,670,009**	22,611,987	22,654,808
Sukuk	**63,662,675**	48,102,603	39,351,872
Structured Products	**1,000,000**	1,000,000	1,000,000
Less: Impairment (Stage 1)	**(40,670)**	(31,824)	(31,008)
Total investments held at amortized cost	**87,292,014**	71,682,766	62,975,672
Investments held as FVIS			
Mutual funds	**2,977,017**	2,650,605	2,499,459
Structured Products	**728,141**	788,765	1,498,644
Sukuk	**32,315**	32,680	-
Total FVIS investments	**3,737,473**	3,472,050	3,998,103
FVOCI investments			
Equity investments	**2,208,879**	5,148,946	4,326,469
Sukuk	**3,052,633**	3,834,641	2,901,970
Less: Impairment (Stage 1)	**(235)**	(261)	(247)
Total FVOCI investments	**5,261,277**	8,983,326	7,228,192
Total investments	**96,290,764**	84,138,142	74,201,967

(b) The domestic and international allocation of the Group's investments are summarized as follows:

30 June 2022	**Domestic**	**International**	**Total**
Investments held at amortized cost:			
Fixed-rate Sukuk	**53,467,489**	**6,115,195**	**59,582,684**
Floating-rate Sukuk	**26,750,000**	**-**	**26,750,000**
Structured products	**500,000**	**500,000**	**1,000,000**
Less: Impairment (Stage 1)	**(40,670)**	**-**	**(40,670)**
Total investments held at amortized cost	**80,676,819**	**6,615,195**	**87,292,014**
Investments held as FVIS			
Mutual funds	**2,977,017**	**-**	**2,977,017**
Structured Products	**508,000**	**220,141**	**728,141**
Fixed-rate Sukuk	**32,315**	**-**	**32,315**
Total FVIS investments	**3,517,332**	**220,141**	**3,737,473**
Investments held as OCI:			
Fixed-rate Sukuk	**1,199,239**	**1,853,394**	**3,052,633**
Equity investments	**2,187,972**	**20,907**	**2,208,879**
Less: Impairment (Stage 1)	**-**	**(235)**	**(235)**
Total investments held as OCI	**3,387,211**	**1,874,066**	**5,261,277**
Total investments	**87,581,362**	**8,709,402**	**96,290,764**

(SAR'000)

5 - Investments, net (Continued)

(b) The domestic and international allocation of the Group's investments are summarized as follows: (Continued)

31 December 2021	Domestic	International	Total
Investments held at amortized cost:			
Fixed-rate Sukuk	40,949,233	4,910,357	45,859,590
Floating-rate Sukuk	24,855,000	-	24,855,000
Structured products	500,000	500,000	1,000,000
Less: Impairment (Stage 1)	(31,824)	-	(31,824)
Total investments held at amortized cost	66,272,409	5,410,357	71,682,766
Investments held as FVIS			
Mutual funds	2,650,600	-	2,650,600
Structured Products	500,000	288,770	788,770
Fixed-rate Sukuk	32,680	-	32,680
Total FVIS investments	3,183,280	288,770	3,472,050
Investments held as OCI:			
Fixed-rate Sukuk	2,128,346	1,532,873	3,661,219
Equity investments	5,128,039	194,329	5,322,368
Less: Impairment (Stage 1)	-	(261)	(261)
Total investments held as OCI	7,256,385	1,726,941	8,983,326
Total investments	76,712,074	7,426,068	84,138,142

30 June 2021	Domestic	International	Total
Investments held at amortized cost:			
Fixed-rate Sukuk	32,573,012	4,503,668	37,076,680
Floating-rate Sukuk	24,930,000	-	24,930,000
Structured products	500,000	500,000	1,000,000
Less: Impairment (Stage 1)	(31,008)	-	(31,008)
Total investments held at amortized cost	57,972,004	5,003,668	62,975,672
Investments held as FVIS			
Mutual funds	2,499,459	-	2,499,459
Structured Products	528,869	969,775	1,498,644
Total FVIS investments	3,028,328	969,775	3,998,103
Investments held as OCI:			
Fixed-rate Sukuk	1,627,112	1,274,858	2,901,970
Equity investments	4,305,562	20,907	4,326,469
Less: Impairment (Stage 1)	-	(247)	(247)
Total investments held as OCI	5,932,674	1,295,518	7,228,192
Total investments	66,933,006	7,268,961	74,201,967

(SAR'000)

6 - Shariah compliant derivatives

The table below summarises the positive and negative fair values of Shariah compliant derivatives, together with the notional amounts. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the period-end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Group's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor market risk.

In the ordinary course of business, the Bank utilises the following derivative financial instruments for both trading and hedging purposes:

(a) Profit rate swaps

Profit rate swaps are commitments to exchange one set of cash flows for another. For profit rate swaps, counterparties generally exchange fixed and floating rate profit payments in a single currency without exchanging principal. For cross-currency profit rate swaps, principal, fixed and floating profit payments 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 customized contracts transacted in the over-the-counter markets. Foreign currency and profit rate futures are transacted in standardized amounts on regulated exchanges and changes in futures contract values are settled daily.

(c) FX Swaps

FX swaps are agreements between two parties to exchange a given amount of one currency for an amount of another currency based on the current spot rate and forward rates quoted in the interbank market. The two parties will then settle their respective foreign exchange notional amounts governed by the previously agreed specific forward rate, the forward rate locks in the exchange rate at which the funds will be exchanged in the future.

The tables below show the positive and negative fair values of derivatives, together with the notional amounts:

30 June 2022	Positive fair value	Negative fair value	Notional amount total
Held for trading:			
Profit rate swaps	**645,057**	**(588,281)**	**21,202,799**
Foreign exchange forward contracts	**43,665**	**(36,332)**	**675,445**
FX Swaps	**10,823**	**(12,105)**	**10,317,488**
Total	**699,545**	**(636,718)**	**32,195,732**

31 December 2021	Positive fair value	Negative fair value	Notional amount total
Held for trading:			
Profit rate swaps	179,694	(150,455)	17,305,197
Foreign exchange forward contracts	12,224	(11,853)	227,966
FX Swaps	16,664	(5,327)	7,443,526
Total	208,582	(167,635)	24,976,689

30 June 2021	Positive fair value	Negative fair value	Notional amount total
Held for trading:			
Profit rate swaps	121,619	(101,288)	12,318,407
Foreign exchange forward contracts	6,356	(5,504)	333,676
FX Swaps	215	(414)	3,188
Total	128,190	(107,206)	12,655,271

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7 - Financing, net

(a) Net financing held at amortized cost:

30 June 2022	**Retail**	**Corporate**	**Total**
Performing financing	**413,686,275**	**111,850,882**	**525,537,157**
Non-performing financing	**1,471,766**	**1,553,049**	**3,024,815**
Gross financing	**415,158,041**	**113,403,931**	**528,561,972**
Provision for financing impairment	**(4,923,964)**	**(3,937,278)**	**(8,861,242)**
Financing, net	**410,234,077**	**109,466,653**	**519,700,730**

31 December 2021	**Retail**	**Corporate**	**Total**
Performing financing	369,450,683	89,568,028	459,018,711
Non-performing financing	1,500,097	1,510,003	3,010,100
Gross financing	370,950,780	91,078,031	462,028,811
Provision for financing impairment	(5,201,431)	(3,996,723)	(9,198,154)
Financing, net	365,749,349	87,081,308	452,830,657

30 June 2021	**Retail**	**Corporate**	**Total**
Performing financing	315,521,807	80,583,040	396,104,847
Non-performing financing	1,059,678	1,603,552	2,663,230
Gross financing	316,581,485	82,186,592	398,768,077
Provision for financing impairment	(4,986,563)	(3,485,759)	(8,472,322)
Financing, net	311,594,922	78,700,833	390,295,755

(b) The movement in the allowance for impairment of financing is as follows:

	30 June 2022	30 June 2021
Balance at the beginning of the period	**9,198,154**	7,471,356
Provided for the period	**1,776,265**	1,969,530
Bad debt written off	**(2,113,177)**	(968,564)
Balance at the end of the period	**8,861,242**	8,472,322

(c) The allowance for impairment of financing, off balance sheet, other financial assets charged to the interim condensed statement of income comprise of the following:

	30 June 2022	30 June 2021
Provided for the period	**1,775,879**	1,979,058
Recovery of written off financing for the period	**(617,154)**	(818,102)
Allowance for financing impairment, net	**1,158,725**	1,160,956

(SAR'000)

7 - Financing, net (Continued)

(d) The movement of financing by stages is as follows:

	Gross carrying amount as of 30 June 2022			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Financing				
At 1 January 2022	**448,294,309**	**9,557,878**	**4,176,624**	**462,028,811**
Transfers:				
Transfer to 12-month ECL	**1,593,685**	**(1,571,577)**	**(22,108)**	**-**
Transfer to Lifetime ECL not credit impaired	**(4,168,754)**	**4,350,850**	**(182,096)**	**-**
Transfer to Lifetime ECL credit impaired	**(699,536)**	**(1,251,995)**	**1,951,531**	**-**
Write-offs	**-**	**-**	**(2,113,177)**	**(2,113,177)**
New business/ Other movements	**69,378,762**	**(1,253,625)**	**521,201**	**68,646,338**
At 30 June 2022	**514,398,466**	**9,831,531**	**4,331,975**	**528,561,972**

	Gross carrying amount as of 31 December 2021			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Financing				
At 1 January 2021	311,275,457	8,460,233	3,447,767	323,183,457
Transfers:				
Transfer to 12-month ECL	1,538,438	(1,534,491)	(3,947)	-
Transfer to Lifetime ECL not credit impaired	(3,669,318)	3,836,110	(166,792)	-
Transfer to Lifetime ECL credit impaired	(687,863)	(271,691)	959,554	-
Write-offs	-	-	(2,075,430)	(2,075,430)
New business/ Other movements	139,837,595	(932,283)	2,015,472	140,920,784
At 31 December 2021	448,294,309	9,557,878	4,176,624	462,028,811

	Gross carrying amount as of 30 June 2021			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Financing				
At 1 January 2021	311,275,457	8,460,233	3,447,767	323,183,457
Transfers:				
Transfer to 12-month ECL	1,275,969	(1,272,543)	(3,426)	-
Transfer to Lifetime ECL not credit impaired	(2,677,165)	2,815,237	(138,072)	-
Transfer to Lifetime ECL credit impaired	(447,508)	(365,825)	813,333	-
Write-offs	-	-	(968,564)	(968,564)
New business/ Other movements	77,203,624	(1,156,947)	506,507	76,553,184
At 30 June 2021	386,630,377	8,480,155	3,657,545	398,768,077

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7 - Financing, net (Continued)

(e) The movement in ECL allowances for impairment of financing by stages is as follows:

	Credit loss allowance as of 30 June 2022			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
ECL allowances for impairment of financing				
At 1 January 2022	**3,712,975**	**2,326,414**	**3,158,765**	**9,198,154**
Transfers:				
Transfer to 12-month ECL	**228,614**	**(216,114)**	**(12,500)**	**-**
Transfer to Lifetime ECL not credit impaired	**(132,465)**	**251,624**	**(119,159)**	**-**
Transfer to Lifetime ECL credit impaired	**(29,721)**	**(500,740)**	**530,461**	**-**
Write-offs	**-**	**-**	**(2,113,177)**	**(2,113,177)**
Net Charge for the Period	**(136,406)**	**296,157**	**1,616,514**	**1,776,265**
At 30 June 2022	**3,642,997**	**2,157,341**	**3,060,904**	**8,861,242**

	Credit loss allowance as of 31 December 2021			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
ECL allowances for impairment of financing				
At 1 January 2021	2,944,807	2,030,356	2,496,193	7,471,356
Transfers:				
Transfer to 12-month ECL	314,742	(312,458)	(2,284)	-
Transfer to Lifetime ECL not credit impaired	(79,419)	174,580	(95,161)	-
Transfer to Lifetime ECL credit impaired	(47,348)	(126,873)	174,221	-
Write-offs	-	-	(2,075,430)	(2,075,430)
Net Charge for the Period	580,193	560,809	2,661,226	3,802,228
At 31 December 2021	3,712,975	2,326,414	3,158,765	9,198,154

	Credit loss allowance as of 30 June 2021			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
ECL allowances for impairment of financing				
At 1 January 2021	2,944,807	2,030,356	2,496,193	7,471,356
Transfers:				
Transfer to 12-month ECL	177,109	(172,552)	(4,557)	-
Transfer to Lifetime ECL not credit impaired	(75,942)	143,996	(68,054)	-
Transfer to Lifetime ECL credit impaired	(39,164)	(186,684)	225,848	-
Write-offs	-	-	(968,564)	(968,564)
Net Charge for the Period	462,510	566,094	940,926	1,969,530
At 30 June 2021	3,469,320	2,381,210	2,621,792	8,472,322

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8 - Due to banks and other financial institutions

Due to banks and other financial institutions comprise the following:

	30 June 2022	31 December 2021	30 June 2021
Current accounts	**1,654,924**	1,749,131	1,314,974
Banks' time investments	**40,877,100**	16,203,009	12,770,282
Total	**42,532,024**	17,952,140	14,085,256

9 - Customers' deposits

Customers' deposits by type comprise the following:

	30 June 2022	31 December 2021	30 June 2021
Demand deposits	**388,505,310**	374,725,352	358,010,783
Customers' time investments	**155,750,346**	130,293,061	82,873,024
Other customer accounts	**8,701,186**	7,053,800	6,622,375
Total	**552,956,842**	512,072,213	447,506,182

All Customers' time investments are subject to Murabaha contracts and therefore are non-interest.

10 - Commitments and contingencies

(a) Commitments and contingencies comprise the following:

	30 June 2022	31 December 2021	30 June 2021
Letters of credit	**6,610,834**	5,213,221	4,331,889
Acceptances	**1,345,565**	857,560	646,167
Letters of guarantee	**11,985,738**	7,731,576	6,453,379
Irrevocable commitments to extend credit	**10,846,469**	11,284,872	8,123,664
Total	**30,788,606**	25,087,229	19,555,099

(b) Legal proceedings

As at 30 June 2022, there were certain legal proceedings outstanding against the Group in the normal course of business including those relating to the extension of credit facilities. Such proceedings are being reviewed by the concerned parties.

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

The Bank was named as one of many defendants in certain lawsuits initiated in the US commencing in 2002. The Bank was successful in defending the claims, all of which were finally dismissed by the relevant courts. With respect to new lawsuits commencing in 2016, however, the most recent dismissal was reversed by the court of appeals to permit limited jurisdictional discovery, which commenced in 2021. The Bank's management believes that the claims will be defended successfully, although note that there are inherent uncertainties in litigation.

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10 - Commitments and contingencies (Continued)

(c) Commitments and contingencies that may result in credit exposure

The table below shows the gross carrying amount and ECL allowance of the financing commitments and financial guarantees.

30 June 2022	Letter of Credit	Acceptance	Letter of guarantees	Irrevocable commitments to extend credit	Total
Gross carrying amount					
Stage 1 - (12-months ECL)	**6,588,386**	**1,340,948**	**11,263,995**	**10,664,535**	**29,857,864**
Stage 2 - (lifetime ECL not credit impaired)	**22,089**	**1,466**	**371,435**	**181,934**	**576,924**
Stage 3 - (lifetime ECL for credit impaired)	**359**	**3,151**	**350,308**	**-**	**353,818**
Total outstanding balance at end of the period	**6,610,834**	**1,345,565**	**11,985,738**	**10,846,469**	**30,788,606**

30 June 2022	Letter of Credit	Acceptance	Letter of guarantees	Irrevocable commitments to extend credit	Total
Credit loss allowance of the financing commitments and financial guarantees					
Stage 1 - (12-months ECL)	**54,848**	**3,463**	**12,030**	**19,465**	**89,806**
Stage 2 - (lifetime ECL not credit impaired)	**40**	**117**	**4,431**	**3,652**	**8,240**
Stage 3 - (lifetime ECL for credit impaired)	**356**	**3,151**	**305,298**	**-**	**308,805**
Total	**55,244**	**6,731**	**321,759**	**23,117**	**406,851**

31 December 2021	Letter of Credit	Acceptance	Letter of guarantees	Irrevocable commitments to extend credit	Total
Gross carrying amount					
Stage 1 - (12-months ECL)	5,186,457	856,792	7,006,356	11,065,878	24,115,483
Stage 2 - (lifetime ECL not credit impaired)	24,328	768	356,166	210,608	591,870
Stage 3 - (lifetime ECL for credit impaired)	2,436	-	369,054	8,386	379,876
Total outstanding balance at end of the year	5,213,221	857,560	7,731,576	11,284,872	25,087,229

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10 - Commitments and contingencies (Continued)

(c) Commitments and contingencies that may result in credit exposure (Continued)

31 December 2021	Letter of Credit	Acceptance	Letter of guarantees	Irrevocable commitments to extend credit	Total
Credit loss allowance of the financing commitments and financial guarantees					
Stage 1 - (12-months ECL)	61,532	821	13,780	6,982	83,115
Stage 2 - (lifetime ECL not credit impaired)	103	39	2,727	2,043	4,912
Stage 3 - (lifetime ECL for credit impaired)	2,436	-	319,577	5,551	327,564
Total	64,071	860	336,084	14,576	415,591

30 June 2021	Letter of Credit	Acceptance	Letter of guarantees	Irrevocable commitments to extend credit	Total
Gross carrying amount					
Stage 1 - (12-months ECL)	4,305,030	636,472	5,484,645	7,904,965	18,331,112
Stage 2 - (lifetime ECL not credit impaired)	23,349	9,695	458,497	207,617	699,158
Stage 3 - (lifetime ECL for credit impaired)	3,510	-	510,237	11,082	524,829
Total outstanding balance at end of the period	4,331,889	646,167	6,453,379	8,123,664	19,555,099

30 June 2021	Letter of Credit	Acceptance	Letter of guarantees	Irrevocable commitments to extend credit	Total
Credit loss allowance of the financing commitments and financial guarantees					
Stage 1 - (12-months ECL)	24,493	1,193	15,855	7,812	49,353
Stage 2 - (lifetime ECL not credit impaired)	221	73	4,970	1,718	6,982
Stage 3 - (lifetime ECL for credit impaired)	3,509	-	465,738	6,477	475,724
Total	28,223	1,266	486,563	16,007	532,059

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11 - Other Reserves

Other reserves include FVOCI investments reserve, foreign currency translation reserve, employees' end of service benefits reserve and share in FVOCI from associate.

12 - Zakat

The Group is subject to Zakat in accordance with the regulations of the Zakat, Tax and Customs Authority ("ZATCA"). Zakat expense is charged to the interim condensed consolidated statement of income. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to zakat.

13 - Cash and cash equivalents

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

	30 June 2022	31 December 2021	30 June 2021
Cash in hand	**5,985,798**	5,445,994	7,397,518
Due from banks and other financial institutions maturing within 90 days from the date of purchase	**21,753,291**	12,736,869	6,635,117
Balances with SAMA and other central banks (current accounts)	**776,832**	314,005	718,682
Mutajara with SAMA	**959,907**	5,799,920	1,323,000
Cash and cash equivalents	**29,475,828**	24,296,788	16,074,317

14 - Operating segments

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

Transactions between the operating segments are on normal commercial terms and conditions. The revenue from external parties reported to the Board is measured in a manner consistent with that in the interim condensed consolidated statement of income. Segment assets and liabilities comprise operating assets and liabilities, which represents the majority of the Bank's assets and liabilities.

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 31 December 2021.

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

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

The Group's total assets and liabilities as at 30 June 2022 and 2021 together with the total operating income and expenses, and income before zakat for the six-month periods then ended, for each business segment, are analyzed as follows:

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14 - Operating segments (Continued)

30 June 2022	Retail segment	Corporate segment	Treasury segment	Investment services and brokerage segment	Total
Total Assets	**434,953,719**	**109,457,890**	**158,023,998**	**7,343,440**	**709,779,047**
Total Liabilities	**317,418,608**	**253,583,527**	**56,283,513**	**580,216**	**627,865,864**
Financing and investment income from external customers	**9,188,743**	**1,839,012**	**1,288,984**	**53,975**	**12,370,714**
Inter-segment operating income /(expense)	**(3,383,311)**	**640,528**	**2,742,783**	**-**	**-**
Gross financing and investment income	**5,805,432**	**2,479,540**	**4,031,767**	**53,975**	**12,370,714**
Gross financing and investment return	**(118,750)**	**(1,081,946)**	**(263,083)**	**-**	**(1,463,779)**
Net financing and investment income	**5,686,682**	**1,397,594**	**3,768,684**	**53,975**	**10,906,935**
Fee from banking services, net	**877,952**	**382,282**	**665,693**	**384,493**	**2,310,420**
Exchange income, net	**281,208**	**88,885**	**174,530**	**-**	**544,623**
Other operating income, net	**15,560**	**3,131**	**208,095**	**115,658**	**342,444**
Total operating income	**6,861,402**	**1,871,892**	**4,817,002**	**554,126**	**14,104,422**
Depreciation and amortization	**(571,757)**	**(49,353)**	**(14,990)**	**(7,672)**	**(643,772)**
Impairment charge for financing and other financial assets, net	**(611,560)**	**(532,486)**	**(14,679)**	**-**	**(1,158,725)**
Other operating expenses	**(2,465,106)**	**(248,067)**	**(89,616)**	**(142,554)**	**(2,945,343)**
Total operating expenses	**(3,648,423)**	**(829,906)**	**(119,285)**	**(150,226)**	**(4,747,840)**
Income before Zakat	**3,212,979**	**1,041,986**	**4,697,717**	**403,900**	**9,356,582**

30 June 2021	Retail segment	Corporate segment	Treasury segment	Investment services and brokerage segment	Total
Total Assets	332,207,308	77,762,808	131,723,082	4,446,039	546,139,237
Total Liabilities	313,166,779	152,025,046	21,086,585	190,756	486,469,166
Financing and investment income from external customers	8,048,358	1,130,954	948,133	30,451	10,157,896
Inter-segment operating income /(expense)	(1,794,972)	(14,832)	1,809,804	-	-
Gross financing and investment income	6,253,386	1,116,122	2,757,937	30,451	10,157,896
Gross financing and investment return	(122,669)	(158,420)	(54,482)	-	(335,571)
Net financing and investment income	6,130,717	957,702	2,703,455	30,451	9,822,325
Fee from banking services, net	650,331	488,977	238,737	465,051	1,843,096
Exchange income, net	181,380	47,339	130,665	-	359,384
Other operating income, net	71,667	-	130,809	56,617	259,093
Total operating income	7,034,095	1,494,018	3,203,666	552,119	12,283,898
Depreciation and amortization	(493,845)	(29,066)	(10,877)	(5,614)	(539,402)
Impairment charge for financing and other financial assets, net	(1,108,060)	(49,139)	(3,757)	-	(1,160,956)
Other operating expenses	(2,459,262)	(216,864)	(88,307)	(77,744)	(2,842,177)
Total operating expenses	(4,061,167)	(295,069)	(102,941)	(83,358)	(4,542,535)
Income before Zakat	2,972,928	1,198,949	3,100,725	468,761	7,741,363

(SAR'000)

15 - Fair values of financial assets and liabilities

Determination of fair value and fair value hierarchy

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

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

Level 2: Inputs other than quoted prices included in level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique include inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments"

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

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

The following table shows the carrying amount and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy, for financial instruments measured at fair value and financial instruments not measured at fair value:

30 June 2022	Carrying value	Level 1	Level 2	Level 3	Total
Financial assets					
Financial assets measured at fair value					
FVIS Investments – Mutual funds	**2,977,017**	**-**	**2,977,017**	**-**	**2,977,017**
FVOCI - Equity investments	**2,208,879**	**2,184,556**	**-**	**24,323**	**2,208,879**
FVIS Sukuk	**32,315**	**-**	**32,315**	**-**	**32,315**
FVOCI Sukuk	**3,052,633**	**-**	**3,052,633**	**-**	**3,052,633**
FVIS Structured Products	**728,141**	**-**	**-**	**728,141**	**728,141**
Positive fair value Shariah compliant derivatives	**699,545**	**-**	**699,545**	**-**	**699,545**
Financial assets not measured at fairvalue					
Due from banks and other financial institutions	**29,412,157**	**-**	**-**	**29,349,079**	**29,349,079**
Investments held at amortized cost					
Murabaha with Saudi Government and SAMA	**22,670,009**	**-**	**-**	**22,937,923**	**22,937,923**
Sukuk	**63,662,675**	**-**	**59,810,451**	**-**	**59,810,451**
Structured Products	**1,000,000**	**-**	**-**	**948,258**	**948,258**
Gross Financing	**528,561,972**	**-**	**-**	**526,655,892**	**526,655,892**
Total	**655,005,343**	**2,184,556**	**66,571,961**	**580,643,616**	**649,400,133**
Financial liabilities					
Financial liabilities measured at fair value					
Negative fair value Shariah compliant derivatives	**636,718**	**-**	**636,718**	**-**	**636,718**
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	**42,532,024**	**-**	**-**	**42,978,743**	**42,978,743**
Customers' deposits	**552,956,842**	**-**	**-**	**555,797,165**	**555,797,165**
Total	**596,125,584**		**636,718**	**598,775,908**	**599,412,626**

(SAR'000)

15 - Fair values of financial assets and liabilities (Continued)

31 December 2021	Carrying value	Level 1	Level 2	Level 3	Total
Financial assets					
Financial assets measured at fair value					
FVIS Investments – Mutual funds	2,650,605	-	2,650,605	-	2,650,605
FVOCI - Equity investments	5,148,946	5,124,587	-	24,359	5,148,946
FVIS Sukuk	32,680	-	32,680	-	32,680
FVOCI Sukuk	3,834,641	-	3,834,641	-	3,834,641
FVIS Structured Products	788,765	-	-	788,765	788,765
Positive fair value Shariah compliant derivatives	208,582	-	208,582	-	208,582
Financial assets not measured at fair value					
Due from banks and other financial institutions	26,065,392	-	-	26,181,679	26,181,679
Investments held at amortized cost					
Murabaha with Saudi Government and SAMA	22,611,987	-	-	22,900,999	22,900,999
Sukuk	48,102,603	-	49,324,606	-	49,324,606
Structured Products	1,000,000	-	-	1,038,043	1,038,043
Gross Financing	462,028,811	-	-	478,238,097	478,238,097
Total	572,473,012	5,124,587	56,051,114	529,171,942	590,347,643
Financial liabilities					
Financial liabilities measured at fair value					
Negative fair value Shariah compliant derivatives	167,635	-	167,635	-	167,635
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	17,952,140	-	-	18,198,581	18,198,581
Customers' deposits	512,072,213	-	-	511,991,640	511,991,640
Total	530,191,988	-	167,635	530,190,221	530,357,856

30 June 2021	Carrying value	Level 1	Level 2	Level 3	Total
Financial assets					
Financial assets measured at fair value					
FVIS Investments – Mutual funds	2,499,459	-	2,499,459	-	2,499,459
FVOCI - Equity investments	4,326,469	4,302,093	-	24,376	4,326,469
FVIS Sukuk	-	-	-	-	-
FVOCI Sukuk	2,901,970	-	2,901,970	-	2,901,970
FVIS Structured Products	1,498,644	-	-	1,498,644	1,498,644
Positive fair value Shariah compliant derivatives	128,190	-	128,190	-	128,190
Financial assets not measured at fair value					
Due from banks and other financial institutions	26,212,976	-	-	26,525,753	26,525,753
Investments held at amortized cost					
Murabaha with Saudi Government and SAMA	22,654,808	-	-	22,975,588	22,975,588
Sukuk	39,351,872	-	38,494,166	-	38,494,166
Structured Products	1,000,000	-	-	1,039,226	1,039,226
Gross Financing	398,768,077	-	-	413,191,759	413,191,759
Total	499,342,465	4,302,093	44,023,785	465,255,346	513,581,224
Financial liabilities					
Financial liabilities measured at fair value					
Negative fair value Shariah compliant derivatives	107,206	-	107,206	-	107,206
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	14,085,256	-	-	14,166,089	14,166,089
Customers' deposits	447,506,182	-	-	447,507,128	447,507,128
Total	461,698,644	-	107,206	461,673,217	461,780,423

15 - Fair values of financial assets and liabilities (Continued)

FVIS investments classified as level 2 represent mutual funds, the fair value of which is determined based on the fund's latest reported net assets value (NAV) as at the date of the interim condensed consolidated statement of financial position.

Gross financing classified as level 3 has been valued using expected cash flows discounted at relevant current effective profit rate. Investments held at amortized cost, due to / from banks and other financial institutions have been valued using the actual cash flows discounted at relevant SIBOR/ portfolio yields/ SAMA murabaha rates.

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

16 - Share capital

The authorized, issued and fully paid share capital of the Bank consists of 4,000 million shares of SAR 10 each as of 30 June 2022 (31 December 2021: 2,500 million shares of SAR 10 each and 30 June 2021: 2,500 million shares of SAR 10 each).

17 - Earnings per share

Basic and diluted earnings per share is calculated by dividing net income adjusted for Tier I Sukuk costs by weighted average number of the issued and outstanding shares after giving retrospective effect to the bonus shares issuance of 1,500 million shares (refer to note 18), the weighted average number of outstanding shares as at 30 June, 2022 is 4,000 million shares. The diluted earnings per share is the same as the basic earnings per share.

18 - Bonus shares

Al Rajhi Bank Board of Directors, through circulation on 16/7/1443 corresponding to 17/2/2022, recommended to the Extraordinary General Assembly to increase the bank's capital by granting bonus shares to the bank's shareholders through capitalization of SAR 15,000 Million from the retained earnings by granting 3 shares for every 5 shares owned.
On 07 Shawal, 1443 (corresponding to 08 May, 2022), the Bank's shareholders in an extraordinary general assembly meeting approved the recommended such bonus shares issuance.

19 - Tier 1 Sukuk

On January 2022, the Bank through a Shariah compliant arrangement (the "arrangement") issued Tier 1 Sukuk (the "Sukuk"), of SAR 6.5 billion. The Sukuk are perpetual securities in respect of which there is no fixed redemption dates, the Sukuk also represent an undivided ownership interest of the Sukuk-holders in the Sukuk assets without any preference or priority among themselves, with each unit of the Sukuk constituting an unsecured, conditional and subordinated obligation of the Bank classified under equity. However, the Bank has the exclusive option to redeem or call all of the Sukuk on or after 23 January 2027 or any periodic distribution date thereafter, subject to the terms and conditions stipulated in the Sukuk agreement.

The applicable profit rate on the Sukuks is payable on each periodic quarterly distribution date, except upon the occurrence of a non-payment event or non-payment election by the Bank, whereby the Bank may at its sole discretion, subject to certain terms and conditions, elect not to make any distributions. Such non-payment event or non-payment election are not considered to be events of default and the amounts not paid thereof shall not be cumulative or compound with any future distributions.

(SAR'000)

20 - Capital adequacy

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

Capital adequacy and the use of regulatory capital are monitored daily by the Group's management. SAMA requires the banks to hold the minimum level of the regulatory capital and also to maintain a ratio of total regulatory capital to the risk-weighted assets at or above Basel prescribed minimum.

The Group monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Group's eligible capital with its consolidated statement of financial position, commitments and contingencies to reflect their relative risks.

SAMA through its Circular Number 391000029731 dated 15 Rabi Al-Awwal 1439H (3 December 2017), which relates to the interim approach and transitional arrangements for the accounting provisions under IFRS 9, has directed banks that the initial impact on the capital adequacy ratio as a result of applying IFRS 9 shall be transitioned over five years.

As part of SAMA guidance on Accounting and Regulatory Treatment of COVID-19 Extraordinary Support Measures, Banks are now allowed to add-back up to 100% of the transitional adjustment amount to Common Equity Tier 1 (CET1) for the full two years' period comprising 2020 and 2021 effective from 31 March 2020 financial statement reporting. The add-back amount must be then phased-out on a straight-line basis over the subsequent 3 years.

Starting June 2021, the Group has opted to apply SAMA allowance to recognize 100% of IFRS9 transitional adjustment amount in the Group's Common Equity Tier 1 (CET 1). As of June 2022, this has resulted in an increase of SAR 2,402 million.

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

	30 June 2022	31 December 2021	30 June 2021
Credit risk weighted assets	**430,666,348**	385,415,205	334,060,240
Operational risk weighted assets	**37,798,847**	37,798,847	33,318,660
Market risk weighted assets	**2,671,508**	2,414,738	3,447,195
Total Pillar I - risk weighted assets	**471,136,703**	425,628,790	370,826,095
Tier I capital	**84,315,423**	70,191,539	62,552,759
Tier II capital	**5,383,329**	4,817,690	4,175,753
Total tier I & II capital	**89,698,752**	75,009,229	66,728,512
Capital Adequacy Ratio %			
Tier I ratio	**17.90%**	16.49%	16.87%
Tier I & II ratio	**19.04%**	17.62%	17.99%

21 - Impact of SAMA programs

Deferred Payments Program ("DPP"):

In response to COVID-19, SAMA launched the Deferred Payments Program ("DPP") in March 2020 to provide the necessary support to eligible (Stage 1 and Stage 2) Micro Small and Medium Enterprises ("MSME") as defined by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H. The payment reliefs were considered as short-term liquidity support to address customers' potential cash flow shortages. The accounting impact of the above changes in terms of the credit facilities were assessed and has been treated as per the requirements of IFRS 9 as modification in terms of arrangement. The DPP program has ended on March 31, 2022.

During the six-month period ended June 30, 2022, SAR 71.8 million (June 30, 2021: SAR 29.3million) has been recognized in the interim condensed consolidated statement of income with respect to the amortization of grant income on related deposits with an aggregate of SAR 18.5 million deferred grant income as at June 30, 2022 (December 31, 2021: SAR 22.8million). During the three-month period ended June 30, 2022, SAR 35.9 million (June 30, 2021: SAR 19.8 million) has been recognized in the interim condensed consolidated statement of income with respect to the amortization of grant income on related deposits. The Group continues to evaluate the current macroeconomic situation including the impact of the pandemic.

22 - IBOR transition (profit rate benchmark reforms)

A fundamental review and reform of major profit rate benchmarks are being undertaken globally. The IASB has published, in two phases, amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 in order to address issues that might affect financial reporting after the reform of a profit rate benchmark, including the replacement of an existing Inter-bank Offer Rate ("IBOR") with an alternative Risk-Free Rate ("RFR"). The Phase 2 amendments are effective for annual periods beginning on or after 1 January 2021, and include practical expedients in respect of:

- Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform by updating the effective profit rate, resulting in no immediate statement of income impact. This applies only when the change is necessary as a direct consequence of the reform, and the new basis for determining the contractual cash flows is economically equivalent to the previous basis; and
- Permitting changes to hedge designation and documentation as a result of IBOR reform without discontinuing the existing hedge accounted relationship.

The Phase 2 amendments provide practical relief from certain requirements in IFRS Standards. These reliefs relate to modifications of financial instruments and lease contracts or hedging relationships triggered by a replacement of a benchmark profit rate in a contract with a new alternative benchmark rate.

If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortized cost changed as a result of profit rate benchmark reform, then the Group updated the effective profit rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by profit rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequence of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis – i.e. the basis immediately before the change.

When the changes were made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by profit rate benchmark reform, the Group first updated the effective profit rate of the financial asset or financial liability to reflect the change that is required by profit rate benchmark reform. After that, the Group applied the policies on accounting for modifications to the additional changes.

The amendments also provide an exception to use a revised discount rate that reflects the change in profit rate when remeasuring a lease liability because of a lease modification that is required by profit rate benchmark reform.

The Group does not have contracts which reference GBP LIBOR, including swaps which will transition under the ISDA protocols.

During 2019 the Board established a steering committee, consisting of key finance, risk, IT, treasury, legal and compliance personnel and external advisors, to oversee the Group's USD LIBOR transition plan. This steering committee put in place a transition project for those contracts which reference USD LIBOR to transition them to SOFR, with the aim of minimizing the potential disruption to business and mitigating operational and conduct risks and possible financial losses. This transition project is considering changes to systems, processes, risk management and valuation models, as well as managing related tax and accounting implications.

As at 30 June 2022, changes required to systems, processes and models have been identified and have been partially implemented. There have been general communications with counterparties, but specific changes to contracts required by IBOR reform have not yet been proposed or agreed. The Group has identified that the areas of most significant risk arising from the replacement of USD LIBOR are: updating systems and processes which capture USD LIBOR referenced contracts; amendments to those contracts, or existing fallback/transition clauses not operating as anticipated; mismatches in timing of derivatives and finances transitioning from USD LIBOR and the resulting impact on economic risk management. The Group continues to engage with industry participants, to ensure an orderly transition to SOFR and to minimise the risks arising from transition and it will continue to identify and assess risks associated with USD LIBOR replacement.

(SAR'000)

23 - Business combination

On 1 February 2022, the Group completed the process and legal formalities of the acquisition of the entire shares of Ejada Systems Limited ("Ejada") (a Saudi limited liability company) for cash consideration of SAR 657,815 thousand.

The acquisition has been accounted for using the acquisition method under IFRS 3 – Business Combinations (the "Standard"). As required by the Standard, the Group is currently in the process of allocating the purchase consideration to the identifiable assets, liabilities and contingent liabilities acquired. The Group has, however, accounted for the acquisition based on provisional fair values of the acquired assets and assumed liabilities as at the acquisition date. Adjustment to the provisional values will be finalized within twelve months of the date of acquisition as allowed by the Standard.

The following table summarizes the recognized amounts at fair value of assets acquired and liabilities assumed at the date of acquisition.

Assets	**1 February 2022**
Property and equipment and right of use	10,319
Intangible Assets	4,726
Investments	72,329
Contract assets	114,670
Prepaid expenses and other assets	25,293
Cash and cash equivalents	118,550
Trade and other receivables	149,232
Total assets	**495,119**
Liabilities	
Lease liability	1,231
Trade and other payables	123,553
Contract liabilities	67,130
Provision for Zakat and income tax	4,757
Lease Liabilities	3,937
End-of-service indemnities	124,147
Total liabilities	**324,755**
Ejada net assets as at acquisition date	170,364
Provisional goodwill arising from the acquisition – classified under other assets.	487,451
Total purchase consideration	**657,815**

24 - Comparative Figures

Certain prior period figures have been reclassified to conform to the current period's presentation.

25 - Approval of the Board of Directors

The interim condensed consolidated financial statements were approved by the Board of Directors on 05 Muharram 1444H (corresponding to 03 August 2022).

AL RAJHI BANKING AND INVESTMENT CORPORATION
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS AND THE INDEPENDENT AUDITORS' REPORT
AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2021

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Ernst & Young Professional Services

Head Office
Al Faisaliah Office Tower, 14th Floor
King Fahad Road
P.O. Box 2732
Riyadh 11461
Kingdom of Saudi Arabia

KPMG

KPMG Professional Services

Riyadh Front, Airport Road
P.O. Box 92876
Riyadh 11663
Kingdom of Saudi Arabia
Headquarters in Riyadh

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Al Rajhi Banking and Investment Corporation (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA") (collectively referred to as "IFRS as endorsed in KSA").

Basis for Opinion

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

Key Audit Matters

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

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

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

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Expected credit loss allowance against financing	
As at 31 December 2021, the Group's gross financing amounted to SAR 462,028.8 million (2020: SAR 323,183.5 million), against which an expected credit loss ("ECL") allowance of SAR 9,198.2 million (2020: SAR 7,471.4 million) was recorded. We considered this as a key audit matter, as the determination of ECL involves significant estimation and management judgment, and this has a material impact on the consolidated financial statements of the Group. Furthermore, the COVID-19 pandemic continues to pose challenges to businesss, thus increasing the levels of judgment and uncertainty needed to determine the ECL under the requirements of *IFRS 9 – Financial Instruments* ("IFRS 9"). The key areas of judgment include: 1. Categorisation of financing into Stages 1, 2 and 3 based on the identification of: (a) exposures that have a significant increase in credit risk ("SICR") since their origination; and (b) individually impaired / defaulted exposures. The Group has applied additional judgments to identify and estimate the likelihood of borrowers experiencing SICR, notwithstanding the government support programs that resulted in deferral of instalments to certain segments of counterparties. These deferrals were not deemed to have triggered SICR by themselves in isolation of other factors.	• We obtained and updated our understanding of management's assessment of the ECL allowance in respect of financing, including the Group's internal rating model, accounting policy and methodology, as well as any key changes made during the year. • We compared the Group's accounting policy and methodology for ECL allowance with the requirements of IFRS 9. • We assessed the design and implementation, and tested the operating effectiveness of the key controls (including relevant IT general and application controls) in relation to: o the ECL model (including governance over the model; its validation during the year; any model updates performed during the year; and approval of the key inputs, assumptions and post model overlays, if any); o the classification of financing into Stages 1, 2 and 3 and timely identification of SICR, and the determination of default / individually impaired exposures; o the IT systems and applications supporting the ECL model; and o the data inputs into the ECL model. • For a sample of customers, we assessed: o the internal ratings determined by management based on the Group's internal models, and considered these assigned ratings in light of external market conditions and available industry information, in particular with reference to the continued impacts of the COVID-19 pandemic; and also assessed that these were consistent with the ratings used as inputs in the ECL model; o management's computations for ECL; and o for selected financings, we assessed management's assessment of recoverable cash flows, including the impact of collateral, and other sources of repayment, if any.

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

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

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Expected credit loss allowance against financing (continued)	
2. Assumptions used in the ECL model for determining probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"), including, but not limited to, assessment of the financial condition of the counterparties, expected future cash flows, developing and incorporating forward looking assumptions, macroeconomic factors and the associated scenarios and expected probability weightages. 3. The need to apply post model overlays using expert credit judgment to reflect all relevant risk factors, especially relating to the ongoing COVID-19 pandemic, that might not have been captured by the ECL model. The application of these judgments, particularly in the context of the COVID-19 pandemic, continues to result in heightened estimation uncertainty around ECL calculations, and therefore affected the associated audit risk thereon as at 31 December 2021. *Refer to the summary of significant accounting policy note 3f)(5) for the impairment of financial assets; note 2d)i) which contains the disclosure of critical accounting judgments, estimates and assumptions relating to impairment losses on financial assets and the impairment assessment methodology used by the Group; note 7-2 which contains the disclosure of impairment against financing; note 27-1a) for details of credit quality analysis and key assumptions and factors considered in determination of ECL; and note 39 for impact of the COVID-19 pandemic on ECL.*	• We assessed the appropriateness of the Group's criteria for the determination of SICR and default, the identification of individually impaired exposures; and the resultant staging classifications. Furthermore, for a sample of exposures, we assessed the appropriateness of the corresponding staging classification of financing facilities with a specific focus on customers operating in sectors most affected by the COVID-19 pandemic, particularly those that continue to be eligible for deferral of instalments under government support programs based on the relevant Saudi Central Bank ("SAMA") circulars setting out the definition criteria as at 31 December 2021. • We assessed the governance process established by the Group and the qualitative factors considered by the Group when applying any overlays or making any adjustments to the outputs from the ECL model, due to data or model limitations or otherwise. • We assessed the reasonableness of the underlying assumptions used by the Group in the ECL model, including forward looking assumptions, keeping in view the uncertainty and volatility in economic scenarios due to the COVID-19 pandemic. • We tested the completeness and accuracy of data supporting the ECL calculations as at 31 December 2021. • Where required, we involved our specialists to assist us in reviewing model calculations, evaluating interrelated inputs and assessing the reasonableness of assumptions used in the ECL model, particularly around macroeconomic variables, forecasted macroeconomic scenarios and probability weights; and of assumptions used in post model overlays. • We assessed the adequacy of the disclosures in the consolidated financial statements.

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

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

Other Information included in the Group's 2021 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Group's 2021 annual report, other than the consolidated financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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 the International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended 31 December 2021 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

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

Ernst & Young Professional Services	**KPMG Professional Services**
Rashid S. Roshod *Certified Public Accountant* License no. 366	**Khalil Ibrahim Al Sedais** *Certified Public Accountant* License no. 371

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CR.1010383821
شركة إرنست ويونغ للخدمات المهنية
(مهنية ذات مسؤولية محدودة)
Ernst & Young Professional Services
(Professional LLC)

19 Rajab 1443 H
(20 February 2022)

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AL RAJHI BANKING AND INVESTMENT CORPORATION (A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2021 AND 2020

	Notes	(SAR'000) 2021	2020
ASSETS			
Cash and balances with Central Bank "SAMA" and other central banks	4	**40,363,449**	47,362,522
Due from banks and other financial institutions, net	5	**26,065,392**	28,654,842
Investments, net	6	**84,433,395**	60,285,272
Financing, net	7	**452,830,657**	315,712,101
Investment properties, net	9	**1,411,469**	1,541,211
Property and equipment, net	8	**10,665,799**	10,234,785
Other assets, net	10	**7,901,754**	5,033,990
TOTAL ASSETS		**623,671,915**	468,824,723
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	11	**17,952,140**	10,764,061
Customers' deposits	12	**512,072,213**	382,631,003
Other liabilities	13	**26,338,711**	17,311,141
Total liabilities		**556,363,064**	410,706,205
Shareholders' equity			
Share capital	14	**25,000,000**	25,000,000
Statutory reserve	15	**25,000,000**	25,000,000
Other reserves	15	**309,394**	(134,728)
Retained earnings		**16,999,457**	8,253,246
Total shareholders' equity		**67,308,851**	58,118,518
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**623,671,915**	468,824,723

The accompanying notes from 1 to 40 form an integral part of these consolidated financial statements.

Chairman | Chief Executive Officer | Chief Financial Officer

AL RAJHI BANKING AND INVESTMENT CORPORATION (A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF INCOME
For the years ended 31 December 2021 and 2020

	Notes	(SAR'000) 2021	2020
INCOME			
Gross financing and investment income	17	**21,441,506**	17,377,963
Return on customers', banks' and financial institutions' time investments	17	**(1,049,570)**	(464,946)
Net financing and investment income	17	**20,391,936**	16,913,017
Fee from banking services, net	18	**3,933,107**	2,659,680
Exchange income, net		**787,898**	783,894
Other operating income, net	19	**603,457**	364,669
Total operating income		**25,716,398**	20,721,260
EXPENSES			
Salaries and employees' related benefits	20	**3,132,346**	2,977,344
Depreciation and amortization	8&9	**1,141,932**	1,118,148
Other general and administrative expenses	21	**2,652,244**	2,646,409
Operating expenses before credit impairment charge		**6,926,522**	6,741,901
Impairment charge for financing and other financial assets, net	7	**2,345,086**	2,165,740
Total operating expenses		**9,271,608**	8,907,641
Income for the year before Zakat		**16,444,790**	11,813,619
Zakat for the year	37	**(1,698,579)**	(1,218,071)
NET INCOME FOR THE YEAR		**14,746,211**	10,595,548
Basic and diluted earnings per share (in SAR)	22	**5.90**	4.24

The accompanying notes from 1 to 40 form an integral part of these consolidated financial statements.

Chairman Chief Executive Officer Chief Financial Officer

2

AL RAJHI BANKING AND INVESTMENT CORPORATION (A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the years ended 31 December 2021 and 2020

		(SAR'000)	
	Notes	**2021**	2020
Net income for the year		**14,746,211**	10,595,548
Other comprehensive income			
Items that cannot be reclassified to consolidated statement of income in subsequent periods:			
Net change in fair value of investments held at fair value through other comprehensive income ("FVOCI")	15	**399,339**	254,222
Re-measurement of employees' end of service benefits liabilities ("ESOB")	15 & 25	**42,055**	(179,605)
Items that can be reclassified to consolidated statement of income in subsequent periods:			
Exchange difference on translating foreign operations	15	**(21,316)**	6,696
Share in OCI from associate	15	**24,044**	-
Total other comprehensive income		**444,122**	81,313
Total comprehensive income for the year		**15,190,333**	10,676,861

The accompanying notes from 1 to 40 form an integral part of these consolidated financial statements.

Chairman Chief Executive Officer Chief Financial Officer

3

AL RAJHI BANKING AND INVESTMENT CORPORATION (A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended 31 December 2021 and 2020

	Notes	Share capital (SAR'000)	Statutory reserve (SAR'000)	Other reserves (SAR'000)	Retained earnings (SAR'000)	Proposed gross dividends (SAR'000)	Total (SAR'000)
Balance at 31 December 2020		**25,000,000**	**25,000,000**	**(134,728)**	**8,253,246**	-	**58,118,518**
Net income for the year		-	-	-	**14,746,211**	-	**14,746,211**
Net change in fair value of FVOCI investments	15	-	-	**399,339**	-	-	**399,339**
Re-measurement of employee EOSB liabilities	15 & 25	-	-	**42,055**	-	-	**42,055**
Exchange difference on translation foreign operations	15	-	-	**(21,316)**	-	-	**(21,316)**
Share in OCI from associate	15	-	-	**24,044**	-	-	**24,044**
Net other comprehensive income recognized directly in shareholders' equity		-	-	**444,122**	-	-	**444,122**
Total comprehensive income for the year		-	-	**444,122**	**14,746,211**	-	**15,190,333**
Dividend for annual year 2020	23	-	-	-	**(2,500,000)**	-	**(2,500,000)**
Dividend for the first half of 2021	23	-	-	-	**(3,500,000)**	-	**(3,500,000)**
Balance at 31 December 2021		**25,000,000**	**25,000,000**	**309,394**	**16,999,457**	-	**67,308,851**

	Notes	Share capital (SAR'000)	Statutory reserve (SAR'000)	Other reserves (SAR'000)	Retained earnings (SAR'000)	Proposed gross dividends (SAR'000)	Total (SAR'000)
Balance at 31 December 2019		25,000,000	21,789,632	(216,041)	868,066	3,750,000	51,191,657
Net income for the year		-	-	-	10,595,548	-	10,595,548
Net change in fair value of FVOCI investments	15	-	-	254,222	-	-	254,222
Re-measurement of employee EOSB liabilities	15 & 25	-	-	(179,605)	-	-	(179,605)
Exchange difference on translation foreign operations	15	-	-	6,696	-	-	6,696
Net other comprehensive income recognized directly in shareholders' equity		-	-	81,313	-	-	81,313
Total comprehensive income for the year		-	-	81,313	10,595,548	-	10,676,861
Transfer to statutory reserve		-	3,210,368	-	(3,210,368)	-	-
Dividend for the second half 2019	23	-	-	-	-	(3,750,000)	(3,750,000)
Balance at 31 December 2020		25,000,000	25,000,000	(134,728)	8,253,246	-	58,118,518

The accompanying notes from 1 to 40 form an integral part of these consolidated financial statements.

Chairman | Chief Executive Officer | Chief Financial Officer

AL RAJHI BANKING AND INVESTMENT CORPORATION (A SAUDI JOINT STOCK COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
For the years ended 31 December 2021 and 2020

	Notes	(SAR'000) 2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before Zakat		**16,444,790**	11,813,619
Adjustments to reconcile net income to net cash from/ (used in) operating activities:			
Loss / (gain) on investments held at fair value through statement of income (FVSI)	19	**37,897**	(33,441)
Depreciation and amortization	8	**1,116,280**	1,080,171
Depreciation on investment properties	9	**25,652**	37,977
(Gain) on sale of property and equipment, net	19	**(47,511)**	(10,256)
Impairment charge for financing and other financial assets, net	7	**2,345,086**	2,165,740
Share in profit of an associate	19	**(32,030)**	(42,944)
(Increase) / decrease in operating assets			
Statutory deposit with SAMA and other central banks		**(5,343,990)**	(2,796,037)
Due from banks and other financial institutions		**4,345,399**	9,846,917
Financing		**(139,463,642)**	(68,195,037)
FVSI investments		**(585,805)**	(4,615,776)
Other assets, net		**(2,889,081)**	(609,530)
Increase/ (decrease) in operating liabilities			
Due to banks and other financial institutions		**7,188,079**	8,544,457
Customers' deposits		**129,441,210**	70,225,180
Other liabilities		**9,457,298**	(958,351)
Zakat paid	37	**(2,086,251)**	(2,032,674)
Net cash generated from operating activities		**19,953,381**	24,420,015
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	8	**(2,386,485)**	(945,685)
Proceeds from disposal of property and equipment		**886,701**	48,234
Purchase of FVOCI investments		**(2,342,405)**	(2,528,010)
Proceeds from disposal of FVOCI investments		**178,363**	163,231
Proceeds from maturities of investments held at amortized cost		**7,852,423**	23,898,760
Purchase of investments held at amortized cost		**(28,691,735)**	(29,548,322)
Net cash used in investing activities		**(24,503,138)**	(8,911,792)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	23	**(6,000,000)**	(3,750,000)
Payment against lease obligation		**(37,357)**	(42,261)
Net cash used in financing activities		**(6,037,357)**	(3,792,261)
Net (decrease) increase in cash and cash equivalents		**(10,587,114)**	11,715,962
Cash and cash equivalents at the beginning of the year		**32,827,361**	21,111,399
Cash and cash equivalents at end of the year	24	**22,240,247**	32,827,361
Gross financing and investment income received during the year		**21,446,997**	17,579,469
Return on customers', banks' and financial institutions' time investments paid during the year		**(417,115)**	(147,912)
		21,029,882	17,431,557
Non-cash transactions:			
Net change in fair value of FVOCI equity investments		**399,339**	254,222
Share in OCI from associate		**24,044**	-

The accompanying notes from 1 to 40 form an integral part of these consolidated financial statements.

Chairman Chief Executive Officer Chief Financial Officer

1. GENERAL

a) Incorporation and operation

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

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

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

The objectives of the Bank are to carry out banking and investment activities in accordance with its Articles of Association and By-Laws, the Banking Control Law and the Council of Ministers' Resolution referred to above. The Bank is engaged in banking and investment activities inside and outside the Kingdom of Saudi Arabia through 574 branches (2020: 591) including the branches outside the Kingdom and 15,078 employees (2020: 13,716 employees). The Bank has established certain subsidiary companies (together with the Bank hereinafter referred to as the "Group") in which it owns all or majority of their shares as set out below (Also see note 3(b)):

Name of subsidiaries	Shareholding %		
	2021	2020	
Tuder Real Estate Company – KSA (formerly: Al Raji Real Estate Development Company)	**100%**	100%	A limited liability company registered in the Kingdom of Saudi Arabia to support the mortgage programs of the Bank through transferring and holding the title deeds of real estate properties under its name on behalf of the Bank, collection of revenue of certain properties sold by the Bank, provide real estate and engineering consulting services, provide documentation service to register the real estate properties and overseeing the evaluation of real estate properties.
Al Rajhi Corporation Limited – Malaysia	**100%**	100%	A licensed Islamic Bank under the Islamic Financial Services Act 2013, incorporated and domiciled in Malaysia.

1. GENERAL (continued)

a) Incorporation and operation (continued)

Name of subsidiaries	Shareholding %		
	2021	2020	
Al Rajhi Capital Company – KSA	**100%**	100%	A Saudi Closed Joint Stock Company authorized by the Capital Market Authority to carry on securities business in the activities of Dealing/brokerage, Managing assets, advising, Arranging, and Custody.
Al Rajhi Bank – Kuwait	**100%**	100%	A foreign branch registered with the Central Bank of Kuwait.
Al Rajhi Bank – Jordan	**100%**	100%	A foreign branch operating in Hashemite Kingdom of Jordan, providing all financial, banking, and investments services and importing and trading in precious metals and stones in accordance with Islamic Sharia'a rules and under the applicable banking law.
Al Rajhi Takaful Agency Company – KSA	**99%**	99%	A limited liability company registered in the Kingdom of Saudi Arabia to act as an agent for insurance brokerage activities per the agency agreement with Al Rajhi Cooperative Insurance Company.
Al Rajhi Company for management services – KSA	**100%**	100%	A limited liability company registered in the Kingdom of Saudi Arabia to provide recruitment services.
Emkan Finance Company – KSA	**100%**	100%	A closed joint stock company registered in the Kingdom of Saudi Arabia providing micro consumer financing, finance lease and small and medium business financing.
Tawtheeq company – KSA	**100%**	100%	A closed joint stock company registered in Kingdom of Saudi Arabia providing financial leasing contracts registration to organize contracts data and streamline litigation processes.
Al Rajhi Financial Markets Ltd	**100%**	100%	A Limited Liability Company registered in the Cayman Islands with the objective of managing certain treasury related transactions on behalf of the Bank.
International Digital Solutions Co. (Neoleap)	**100%**	-	A closed joint stock company owned by the Bank for the purpose of practicing technical work in financial services, digital payment systems, financial settlements and related services.

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

1. GENERAL (continued)

b) Shari'a Authority

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

2. BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements of the Group have been prepared
- in accordance with 'International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia, other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA"), and
- in compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and the Bank's by-laws.

b) Basis of measurement and preparation

The consolidated financial statements are prepared under the historical cost convention except for the following items in the consolidated statement of financial position:

- Derivatives are measured at fair value;
- Financial instruments designated as Fair Value through Profit or Loss ("FVTPL") are measured at fair value;
- Investments designated as Fair Value through Other Comprehensive Income ("FVOCI") are measured at fair value;
- Cash settled share-based payments are measured at fair value; and
- Defined benefit obligations are recognized at the present value of future obligations using the Projected Unit Credit Method.

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

c) Functional and presentation currency

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

d) Critical accounting judgments, estimates and assumptions

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

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

2. BASIS OF PREPARATION (continued)

d) Critical accounting judgments, estimates and assumptions (continued)

i) Expected Credit Losses on financial assets

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

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models such as probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default rate ("LGD"), that are considered accounting judgements and estimates include:

1. The selection of an estimation technique or modelling that are considered accounting Judgements:

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

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

    - Fair value Measurement (note 29),
    - Credit Risk Management (note 27.1.a),
    - Credit Risk Grades (note 27.1.a.3),
    - Classification of Investments at Amortised Cost (note 3.f.(1).1),
    - Determination of control over investees (note 2.d.iii),
    - Depreciation and amortization (note 3.j and 8)
    - Salaries and employees related expenses (note 20)
    - Government grant (note 3.c)

ii) Fair value of financial instruments

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

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

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

The principal or the most advantageous market must be accessible to the Group.

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

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

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

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

2. BASIS OF PREPARATION (continued)

d) Critical accounting judgments, estimates and assumptions (continued)

ii) Fair value of financial instruments (continued)

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3 — Inputs that are unobservables. This category include all instruments for which the use of valuation technique include inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

iii) Determination of control over investees

The control indicators are subject to management's judgements, and are set out in (note 3.b).

Investment funds management:

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

iv) Provisions for liabilities and charges

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

v) Going concern

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

vi) Determination of lease terms

In determining the lease terms for the purposes of calculation of lease liabilities and Right of Use ("ROU") leased assets, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease terms if the lease is reasonably certain to be extended or not terminated. The Group also reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Changes in accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2020 except for the effect of the below standards, interpretations, and amendments that became applicable for annual reporting periods beginning on or after January 1, 2021:

- Amendments to IFRS 7, IFRS 4 and IFRS 16 Profit Rate Benchmark Reform – Phase 2:

  A fundamental review and reform of major profit rate benchmarks is being undertaken globally. The International Accounting Standards Board ("IASB") is engaged in a two-phase process of amending its guidance to assist in a smoother transition away from Inter-Bank Offer Rate ("IBOR"). In 2020, the Group implemented Phase 1, which was mainly amendments to IFRS 9, IAS 39 and IFRS 7, the disclosure relevant to Phase 1 is made in (note 3-d).

  The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The Phase 2 amendments provide additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform Whilst adoption is not mandatory for September 2021 year ends, earlier application is permitted, Note 3-d elaborates the impact of such amendments on the Group.

  Effective date of the change: Accounting years beginning on or after 1 January 2021.

- Amendment to IFRS 16, 'Leases' – COVID-19 related rent concessions:

  As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. On 28 May 2020, the IASB published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.

  Effective date of the change: Accounting years beginning on or after 1 June 2020.

The Group has assessed that these amendments have no significant impact on the Group's consolidated financial statements.

b) Basis of consolidation

These consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as identified in (note 1). The financial statements of subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies. Changes are made to the accounting policies of the subsidiaries when necessary to align the accounting policies of the Group.

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis of consolidation (continued)

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

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

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

- Derecognises the assets and liabilities of the subsidiary;
- Derecognises carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in shareholder's equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in the consolidated statement of income; and
- Reclassifies the parent's share of components previously recognised in OCI to the consolidated statement of income or retained earnings, as appropriate as would be required if the Group had directly disposed of the related assets or liabilities.

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

c) Government grants

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) IBOR Transition (Profit Rate Benchmark Reforms)

A fundamental review and reform of major profit rate benchmarks are being undertaken globally. The IASB has published, in two phases, amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 in order to address issues that might affect financial reporting after the reform of a profit rate benchmark, including the replacement of an existing Inter-bank Offer Rate ("IBOR") with an alternative Risk-Free Rate ("RFR"). The Phase 2 amendments are effective for annual periods beginning on or after 1 January 2021, and include practical expedients in respect of:

- Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform by updating the effective profit rate, resulting in no immediate statement of income impact. This applies only when the change is necessary as a direct consequence of the reform, and the new basis for determining the contractual cash flows is economically equivalent to the previous basis; and

- Permitting changes to hedge designation and documentation as a result of IBOR reform without discontinuing the existing hedge accounted relationship.

The Phase 2 amendments provide practical relief from certain requirements in IFRS Standards. These reliefs relate to modifications of financial instruments and lease contracts or hedging relationships triggered by a replacement of a benchmark profit rate in a contract with a new alternative benchmark rate.

If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortized cost changed as a result of profit rate benchmark reform, then the Group updated the effective profit rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by profit rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequences of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis – i.e. the basis immediately before the change.

When the changes were made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by profit rate benchmark reform, the Group first updated the effective profit rate of the financial asset or financial liability to reflect the change that is required by profit rate benchmark reform. After that, the Group applied the policies on accounting for modifications to the additional changes.

The amendments also provide an exception to use a revised discount rate that reflects the change in profit rate when remeasuring a lease liability because of a lease modification that is required by profit rate benchmark reform.

The Group does not have contracts which reference GBP LIBOR, including swaps which will transition under the ISDA protocols.

During 2019 the Board established a steering committee, consisting of key finance, risk, IT, treasury, legal and compliance personnel and external advisors, to oversee the Group's USD LIBOR transition plan. This steering committee put in place a transition project for those contracts which reference USD LIBOR to transition them to SOFR, with the aim of minimising the potential disruption to business and mitigating operational and conduct risks and possible financial losses. This transition project is considering changes to systems, processes, risk management and valuation models, as well as managing related tax and accounting implications.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) IBOR Transition (Profit Rate Benchmark Reforms) (continued)

As at 31December 2021, changes required to systems, processes and models have been identified and have been partially implemented. There have been general communications with counterparties, but specific changes to contracts required by IBOR reform have not yet been proposed or agreed. The Group has identified that the areas of most significant risk arising from the replacement of USD LIBOR are: updating systems and processes which capture USD LIBOR referenced contracts; amendments to those contracts, or existing fallback/transition clauses not operating as anticipated; mismatches in timing of derivatives and finances transitioning from USD LIBOR and the resulting impact on economic risk management. The Group continues to engage with industry participants, to ensure an orderly transition to SOFR and to minimise the risks arising from transition and it will continue to identify and assess risks associated with USD LIBOR replacement.

The table below shows the Group's exposure at the year-end to significant IBORs subject to reform that have yet to transition to RFRs. The table excludes exposures to IBOR that will expire before transition is required.

In SAR 000 31 December 2021	**Non-derivative financial assets - carrying value**	**Non-derivative financial liabilities carrying value**	**Derivatives Nominal amount**
LIBOR USD (1 months)	**317,586**	**-**	**384,792**
LIBOR USD (3 months)	**3,345,365**	**-**	**2,212,425**
LIBOR USD (6 months)	**6,089,422**	**-**	**9,194,380**
LIBOR USD (12 months)	**397,709**	**-**	**-**
Total	**10,150,082**	**-**	**11,791,597**

In SAR 000 31 December 2020	Non-derivative financial assets - carrying value	Non-derivative financial liabilities carrying value	Derivatives Nominal amount
LIBOR USD (1 months)	24,000	-	23,019
LIBOR USD (3 months)	3,246,250	-	563,250
LIBOR USD (6 months)	7,160,000	-	6,926,443
LIBOR USD (12 months)	-	-	-
Total	10,430,250	-	7,512,712

e) Investment in an associate

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Investment in an associate (continued)

difference between the carrying amount of investment in the associate and the fair value of the consideration received is recognized in the consolidated statement of income.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on an investment in an associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the share in earnings of associates in the consolidated statement of income.

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

f) Financial assets and financial liabilities

(1) Classification and measurement of financial assets

On initial recognition, a financial asset is classified and measured at: Amortized Cost, Fair Value through Other Comprehensive Income ("FVOCI") or Fair Value through Statement of Income ("FVSI"). This classification is generally based on the business model in which a financial asset is managed and its contractual cash flows.

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual profit revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group'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 Group's stated objective for managing the financial assets is achieved and how cash flows are realized.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Financial assets and financial liabilities (continued)

(1) Classification and measurement of financial assets (continued)

Assessments whether contractual cash flows are solely payments of principal and profit (continued)

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

The Group offers profit based products including Mutajara, installment sales and Murabaha to its customers in compliance with Shari'a rules. The Group classifies its Principal financing and Investment as follows:

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

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

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

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

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

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

The financial assets categories are as follows:

1. Financial assets at amortised cost

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

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

2. Financial Asset through Other Comprehensive Income ("FVOCI")

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Financial assets and financial liabilities (continued)

(1) Classification and measurement of financial assets (continued)

3. Financial Asset at Fair Value through Statement of Income ("FVSI")
All other financial assets are classified as measured at FVSI.

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

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

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

(2) Classification of financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and financing commitments, as measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the Effective Profit Rate "EPR".

All amounts due to banks and other financial institutions and customer deposits are initially recognized at fair value less transaction costs. Subsequently, financial liabilities are measured at amortized cost, unless they are required to be measured at fair value through profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Financial assets and financial liabilities (continued)

(3) Derecognition

Derecognition of financial assets

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

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

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 Group retains all or substantially all of the risks and rewards of ownership of such assets.

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

Any cumulative gain/loss recognized in OCI, among other reserve, in respect of equity investment securities designated as at FVOCI is not recognized in consolidated statement of income on derecognition of such securities. not recognized in the consolidated statement of income on derecognition of such securities. Cumulative gains and losses recognized in OCI in respect of such equity investment securities are transferred to retained earnings on disposal. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognized as a separate asset or liability.

Derecognition of financial liabilities

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

(4) Modifications of financial assets and financial liabilities

Modified financial assets

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

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

Modified financial liabilities

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

If the modification of a financial liability is not accounted for as derecognition, then the amortized cost of the liability is recalculated by discounting the modified cash flows at the original effective profit rate and the resulting gain or loss is recognized in consolidated statement of income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Financial assets and financial liabilities (continued)

(5) Impairment

Impairment of financial assets

The loss allowance is based on the Expected Credit Losses ("ECLs") associated with the Probability of Default ("PD") in the next twelve months unless there has been a Significant Increase in Credit Risk ("SICR") since origination. If the financial asset meets the definition of Purchased or Originated Credit Impaired ("POCI"), the allowance is based on the change in the ECLs over the life of the asset. POCI assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and financing income is subsequently recognised based on a credit-adjusted ("EPR"). ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

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

- Due from banks and other financial institution;
- financial assets that are debt instruments;
- lease receivables;
- Financial guarantee contracts issued; and
- Financing commitments issued.

No impairment loss is recognized on equity investments.

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

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Group considers Sukuk 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. Financial assets, for which 12-month ECLs are recognized, are referred to as "Stage1" financial instruments. Financial instruments allocated to Stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit-impaired.

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument or the maximum contractual period of exposure. Financial instruments for which lifetime ECL are recognized but that are not credit-impaired are referred to as "Stage 2 financial assets". Financial instruments allocated to stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are nor credit-impaired.

Financial assets for which the lifetime ECLs are recognized and that are credit-impaired are referred to as "Stage 3 financial assets".

Measurement of ECL

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Financial assets and financial liabilities (continued)

(5) Impairment (continued)

When discounting future cash flows, the following discount rates are used:

- financial assets other than POCI financial assets and lease receivables: the original effective profit rate or an approximation thereof;
- POCI assets: a credit-adjusted effective profit rate;
- Lease receivables: the discount rate used in measuring lease receivables.
- Undrawn financing commitments: the effective profit rate, or an approximation thereof, that will be applied to the financial asset resulting from the financing commitment; and
- financial Guarantee contracts issued: the rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows.

The key inputs into the measurement of ECL are the term structure of the following variables;
- Probability of default (“PD”),
- Loss given default (“LGD”), and
- Exposure at default (“EAD”).

The above parameters are generally derived from internally developed statistical models and historical data which are adjusted for forward looking information. The Group categorizes its financial assets into the following three stages in accordance with IFRS 9 methodology:
- Stage 1: Performing assets;
- Stage 2: Underperforming assets; and
- Stage 3: Credit-impaired assets.

The three stage categories of financial assets are more elaborated in (note 27-1-a.v)

To evaluate a range of possible outcomes, the Group formulates various scenarios. For each scenario, the Group derives an ECL and applies a probability weighted approach to determine the impairment allowance in accordance with the accounting standards requirements.

For how financial assets and ECLs are allocated among the three credit stages, refer to note (4) for due from banks and financial institutions, (note 6) for investments and (note 7) for financing facilities.

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 customer, then an assessment is made of whether the financial asset should be derecognized and then ECLs are measured as follows:

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Financial assets and financial liabilities (continued)

(5) Impairment (continued)

Financing facility that has been renegotiated due to deterioration in the customer's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail financing that is overdue for 90 days or more is considered impaired. In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors.

- The market's assessment of creditworthiness as reflected in the yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of financing being restructured, resulting in holders suffering losses through voluntary or mandatory financing 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 intents, whether there is the capacity to fulfil the required criteria.

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

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the financing commitment component separately from those on the drawn component: the Group 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
- financing commitments and financial guarantee contracts: generally, as a provision;

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

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

To the extent possible, the Group uses active market data for valuing financial assets held as collateral. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, or based on housing price indices.

Collateral repossessed
The Group’s policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Group’s policy.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Financial assets and financial liabilities (continued)

(6) Financial guarantees and financing commitments

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

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

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

g) Derivative financial instruments

Derivative financial instruments include foreign exchange forward contracts and profit rate swaps. These derivatives financial instruments are initially recognised at fair value on the date on which the derivative contract is entered into. These instruments 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. In the ordinary course of business, the Group utilises the following derivative financial instruments for trading purposes:

(1) Profit rate swaps
Swaps are commitments to exchange one set of cash flows for another. For profit rate swaps, counterparties exchange fixed and floating profit rate payments in a single currency without exchanging principal.

(2) Foreign exchange forwards
Forwards are contractual agreements to either buy or sell a specified currency at a specified price and date in the future. Forwards are customised contracts transacted in the over-the-counter markets. Foreign currencies are transacted in standardised amounts on regulated exchanges and changes in futures contract values are settled daily.

(3) Held for trading derivatives
Most of the Group's derivative trading activities relate to sales and positioning. Sales activities involve offering products to customers and banks 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.

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 foreign exchange income for foreign exchange forward contracts and in other income for profit rate swap contracts.

h) Revenue recognition

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

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

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

<u>Fees from banking services;</u> that are integral to the effective profit rate on a financial asset or financial liability are included in the effective.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Revenue recognition (continued)

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

Fees received for asset management and brokerage activities; wealth Management, financial planning, custody services, capital market trading brokerage services and other similar services that are provided over an extended period of time, are recognized over the period when the service is being provided i.e. related performance obligation is satisfied. Asset management fees related to investment funds are recognized over the period the service is being provided. As asset management fees are not subject to clawbacks, the management does not expect any significant reversal of revenue previously recognized. Wealth management and custody services fees that are continuously recognized over a period of time.

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

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

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

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

Rendering of services
The Group provides various services to its customer. These services are either rendered separately or bundled together with rendering of other services. The Group has concluded that revenue from rendering of various services related to payment service system, share trading services, remittance business, SADAD and Mudaraba (i.e. subscription, management and performance fees), should be recognized at the point when services are rendered i.e. when performance obligation is satisfied.

i) Other real estate

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

j) Investment properties

Investment properties are held for long-term rental yield and are not occupied by the Group. They are carried at cost, and depreciation is charged to the consolidated statement of income. The cost of investment properties is depreciated using the straight-line method over the estimated useful life of the assets.

k) Property and equipment, net

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

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the date of each statement of financial position. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in consolidated statement of income.

Other expenditures are capitalized only when it is probable that the future economic benefit of the expenditure will flow to the Group. Ongoing repairs and maintenance costs are expensed when incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Accounting for Ijarah (Leases)

Right of Use Asset / Lease Liabilities

On initial recognition, at inception of the contract, the Group assesses 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

The Group applies a cost model, and measures the right of use of an asset at cost;
1. less any accumulated depreciation and any accumulated impairment losses; and
2. 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 profit 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, the Group measures the lease liability by:
1. Increasing the carrying amount to reflect profit on the lease liability; and
2. Reducing the carrying amount to reflect the lease payments made and:
3. Re-measuring the carrying amount to reflect any re-assessment or lease modification.

The lease liability is measured at amortised cost using the effective profit 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 consolidated statement of income 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."

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Customers' deposits

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

n) Repurchase agreements and reverse repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repurchase agreements) continue to be recognized in the consolidated statement of financial position as the Group retains substantially all of the risks and rewards of ownership, and are measured in accordance with related accounting policies for investments. The transactions are treated as a collateralized financing and the counter party liability for amounts received under these agreements is included in due to banks and other financial institutions, as appropriate. The difference between the sale and repurchase price is treated as financing and investment expense and recognized over the life of the repurchase agreement on an effective yield basis.

Underlying assets purchased with a corresponding commitment to resell at a specified future date (reverse repurchase agreements) are not recognized in the consolidated statement of financial position, as the Group does not obtain control over the underlying assets. Amounts paid under these agreements are included in cash and balances with SAMA. The difference between the purchase and resale price is treated as Income from investments and financing and recognized over the life of the reverse repurchase agreement on an effective profit basis.

o) Provisions

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

p) Cash and cash equivalents

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

q) Special commission excluded from the consolidated statement of income

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

r) Short-term employee benefits

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

s) End of service benefits for employees

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

t) Share-based payments

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

u) Mudaraba funds

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

v) Foreign Currencies

The consolidated financial statements are presented in Saudi Arabian Riyals ("SAR"), which is also the Group's functional currency. Each subsidiary determines its own functional currency and items included in the consolidated financial statements of each subsidiary are measured using that functional currency.

Transactions in foreign currencies are translated into SAR at exchange rates prevailing on the dates of the transactions. Monetary assets and liabilities at the year-end (other than monetary items that form part of the net investment in a foreign operation), denominated in foreign currencies, are translated into SAR at exchange rates prevailing at the date of the consolidated statement of financial position.

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 profit rate and payments during the year and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

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

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI are recognised in OCI. The monetary assets and liabilities of foreign subsidiaries are translated into SAR at rates of exchange prevailing at the date of the consolidated statement of financial position. The statements of income of foreign subsidiaries are translated at the weighted average exchange rates for the year.

w) Day 1 profit or loss

Where a transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognizes the difference between the transaction price and fair value (a Day 1 profit or loss) in the consolidated statement of income. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable, or when the instrument is derecognized.

x) Trade date

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

y) Offsetting financial instruments

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

z) Customer loyalty programs

The Group offers customer loyalty programs referred to as reward points, which allows customers to earn points that can be redeemed through certain partner outlets. The Group allocates a portion of the transaction price to the reward points awarded to members, based on estimates of costs of future redemptions. The amount of expense allocated to reward points is charged to the consolidated statement of income with a corresponding liability recognized in other liabilities. The cumulative amount of the liability related to unredeemed reward points is adjusted over time based on actual redemption experience and current and expected trends with respect to future redemptions.

aa) Zakat and taxes

The Group is subject to Zakat in accordance with the regulations of the Zakat, Tax and Customs Authority ("ZATCA"). Zakat expense is charged to the consolidated statement of income. ZATCA has prescribed a new methodology for calculation on Zakat of financing activities effective January 1, 2019, where previously the Zakat was treated in the consolidated statement of changes in equity. Due accruals have been made for the obligation as at December 31, 2020. Zakat is not accounted for as an income tax and as such no deferred tax assets and liabilities are calculated relating to Zakat.

- **Value Added tax ("VAT")**

The Group is a taxpayer for value added tax as per the Saudi law and its responsibility to collect VAT Output from the customers for qualifying services provided , and makes VAT Input payments to its vendors for qualifying payments. On a monthly basis, the net VAT remittances are made to the ZATCA representing VAT collected from its customers, net of any recoverable VAT on payments. Unrecoverable VAT is borne by the Group and is either expensed or in the case of property, equipment, and intangibles payments, is capitalized and either depreciated or amortized as part of the capital cost.

- **Withholding tax**

Withholding tax is subject to any payment to non-resident vendors for services rendered and goods purchased with certain criteria and rate according to the tax law applicable in Saudi Arabia and are directly paid to the ZATCA on a monthly basis.

bb) Investment management services

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

cc) Bank's products definition

The Group provides its customers with banking products based on interest avoidance concept and in accordance with Shari'a regulations. The following is a description of some of the financing products:

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

Installment sales financing:
It is a financing agreement whereby the Group purchases a commodity or an asset and sells it to the client based on a purchase promise from the client with a deferred price higher than the cash price. Accordingly the client becomes a debtor to the Group with the sale amount to be paid through installments as agreed in the contract.

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

4. CASH AND BALANCES WITH SAMA AND OTHER CENTRAL BANKS

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

	(SAR'000)	
	2021	2020
Cash in hand	**5,445,994**	7,355,940
Statutory deposits	**28,803,530**	23,459,540
Balances with SAMA and other central banks (current accounts)	**314,005**	311,493
Mutajara with SAMA	**5,799,920**	16,235,549
Total	**40,363,449**	47,362,522

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

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

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS, NET

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

	(SAR'000)	
	2021	2020
Current accounts	**2,056,541**	1,259,634
Mutajara	**24,013,126**	27,399,893
Less: Allowance for expected credit losses	**(4,275)**	(4,685)
Total	**26,065,392**	28,654,842

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

2021	(SAR'000)		
	Gross carrying amount	**Allowance for expected credit loss**	Net carrying amount
Investment grade (credit rating AAA to BBB)	**25,575,691**	**(4,275)**	**25,571,416**
Non-investment grade (credit rating BB+ to B-)	**462,716**	-	**462,716**
Unrated	**31,260**	-	**31,260**
Total	**26,069,667**	**(4,275)**	**26,065,392**

2020	(SAR'000)		
	Gross carrying amount	**Allowance for expected credit loss**	Net carrying amount
Investment grade (credit rating AAA to BBB)	28,018,478	(4,685)	28,013,793
Non-investment grade (credit rating BB+ to B-)	492,593	-	492,593
Unrated	148,456	-	148,456
Total	28,659,527	(4,685)	28,654,842

The credit quality of due from banks and other financial institutions is managed using external credit rating agencies. The above due from banks and other financial institutions balances are neither past due nor impaired and are classified in stage 1. There were no movements in staging during year.

6. INVESTMENTS, NET

a) Investments comprise the following as of 31 December:

	(SAR'000)	
	2021	2020
Investment in an associate:	**295,253**	239,179
Investments held at amortized cost:		
Murabaha with Saudi Government and SAMA	**22,611,987**	22,904,021
Sukuk	**46,518,108**	25,240,452
Structured Products	**1,000,000**	1,000,000
Less: Impairment (Stage 1)	**(31,824)**	(26,962)
Total investments held at amortized cost	**70,098,271**	49,117,511
Investments held as FVSI:		
Mutual funds	**2,650,605**	2,545,864
Structured Products	**788,765**	1,502,525
Sukuk	**3,745,521**	2,588,595
Total investments held as FVSI	**7,184,891**	6,636,984
FVOCI investments:		
Equity investments	**5,322,369**	3,687,266
Sukuk	**1,532,611**	604,332
Total FVOCI investments	**6,854,980**	4,291,598
Investments, net	**84,433,395**	60,285,272

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

All investments held at amortized cost are neither past due nor impaired as of 31 December 2021 and 2020, and are classified in stage 1. There were no movements in staging during year.

Equity investment securities designated as at FVOCI
The Group has designated investment in equity securities designated at FVOCI. The FVOCI designation was made because the investments are expected to be held for the long-term for strategic purposes.

None of the strategic investments were disposed of during 2021, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

Investment in an associate
The Group owns 22.5% (31 December 2020: 22.5%) shares of Al Rajhi Company for Cooperative Insurance, a Saudi Joint Stock Company.

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

2021		(SAR'000)	
	Quoted	**Unquoted**	**Total**
Murabaha with Saudi Government and SAMA	**-**	**22,611,987**	**22,611,987**
Structured Products	**-**	**1,788,765**	**1,788,765**
Sukuk	**48,022,762**	**3,741,654**	**51,764,416**
Equities	**5,298,009**	**24,360**	**5,322,369**
Investment in Associate	**295,253**	**-**	**295,253**
Mutual Funds	**2,415,228**	**235,377**	**2,650,605**
Total	**56,031,252**	**28,402,143**	**84,433,395**

6. INVESTMENTS, NET (continued)

2020	(SAR'000)		
	Quoted	Unquoted	Total
Murabaha with Saudi Government and SAMA	-	22,904,021	22,904,021
Structured Products	-	2,502,525	2,502,525
Sukuk	24,143,625	4,262,792	28,406,417
Equities	3,662,877	24,389	3,687,266
Investment in Associate	239,179	-	239,179
Mutual funds	2,291,749	254,115	2,545,864
Total	30,337,430	29,947,842	60,285,272

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

2021	**(SAR'000)**			
	Net carrying value	**Unrecognized gains**	**Unrecognized losses**	**Fair value**
Murabaha with Saudi Government and SAMA	**22,611,987**	**289,012**	-	**22,900,999**
Sukuk	**51,764,416**	**198,991**	-	**51,963,407**
Structure Product	**1,788,765**	**38,043**	-	**1,826,808**
Equities	**5,617,622**	**-**	-	**5,617,622**
Mutual funds	**2,650,605**	**-**	-	**2,650,605**
Total	**84,433,395**	**526,046**	-	**84,959,441**

2020	(SAR'000)			
	Net carrying value	Unrecognized gains	Unrecognized losses	Fair value
Murabaha with Saudi Government and SAMA	22,904,021	322,861	-	23,226,882
Sukuk	28,406,417	915,263	-	29,321,680
Structure Product	2,502,525	48,310	-	2,550,835
Equities	3,926,445	-	-	3,926,445
Mutual funds	2,545,864	-	-	2,545,864
Total	60,285,272	1,286,434	-	61,571,706

d) Credit quality of investments

	(SAR'000)	
	2021	2020
Murabaha with Saudi Government and SAMA	**22,611,987**	22,904,021
Sukuk - Investment grade	**48,079,053**	26,404,319
Structured Products - Investment grade	**1,788,765**	2,502,525
Sukuk – Non Investment grade	**2,268,569**	597,098
Sukuk unrated	**1,416,794**	1,405,000
Total	**76,165,168**	53,812,963

Investment Grade includes those investments having credit exposure equivalent to rating of AAA to BBB-. The unrated category only comprise of unquoted sukuk. Fitch has assigned A rating to KSA as a country as at 31 December 2021 (31 December 2020 : A).

6. INVESTMENTS, NET (continued)

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

	(SAR'000)	
	2021	2020
Government and quasi government	**67,632,706**	45,718,805
Banks and other financial institutions	**5,534,286**	5,091,120
Companies	**8,647,622**	6,956,445
Mutual funds	**2,650,605**	2,545,864
Less: Impairment (Stage 1)	**(31,824)**	(26,962)
Net investments	**84,433,395**	60,285,272

f) The domestic and international allocation of the Group's investments as of December 31, 2021 and 2020 are summarized as follows:

2021		(SAR'000)	
	Domestic	**International**	**Total**
Investment in an associate	**295,253**	**-**	**295,253**
Investments held at amortized cost:			
Fixed-rate Sukuk	**39,364,738**	**4,910,357**	**44,275,095**
Floating-rate Sukuk	**24,855,000**	**-**	**24,855,000**
Structured products	**500,000**	**500,000**	**1,000,000**
Less: Impairment (Stage 1)	**(31,824)**	**-**	**(31,824)**
Total investments held at amortized cost	**64,687,914**	**5,410,357**	**70,098,271**
Investments held as FVSI:			
Mutual funds	**2,650,605**	**-**	**2,650,605**
Structured Products	**500,000**	**288,770**	**788,770**
Fixed-rate Sukuk	**2,013,756**	**-**	**2,013,756**
Floating-rate Sukuk	**1,731,760**	**-**	**1,731,760**
Total investments held as FVSI	**6,896,121**	**288,770**	**7,184,891**
Investments held as OCI:			
Fixed-rate Sukuk	**-**	**1,532,612**	**1,532,612**
Equity investments	**5,128,039**	**194,329**	**5,322,368**
Total investments held as OCI	**5,128,039**	**1,726,941**	**6,854,980**
At 31 December 2021	**77,007,328**	**7,426,067**	**84,433,395**

6. INVESTMENTS, NET (continued)

2020	(SAR'000)		
	Domestic	International	Total
Investment in an associate	239,179	-	239,179
Investments held at amortized cost:			
Fixed-rate Sukuk	18,707,059	4,196,962	22,904,021
Floating-rate Sukuk	25,240,452	-	25,240,452
Structured products	500,000	500,000	1,000,000
Less: Impairment (Stage 1)	(26,962)	-	(26,962)
Total investments held at amortized cost	44,420,549	4,696,962	49,117,511
Investments held as FVSI:			
Mutual funds	2,545,864	-	2,545,864
Structured Products	500,000	1,002,525	1,502,525
Fixed-rate Sukuk	1,133,595	-	1,133,595
Floating-rate Sukuk	1,455,000	-	1,455,000
Total investments held as FVSI	5,634,459	1,002,525	6,636,984
Investments held as OCI:			
Fixed-rate Sukuk	-	604,332	604,332
Equity investments	3,580,589	106,677	3,687,266
Total investments held as OCI	3,580,589	711,009	4,291,598
At 31 December 2021	53,874,776	6,410,496	60,285,272

7. FINANCING, NET

7–1 Financing

a. Net financing as of 31 December are held at amortized cost only comprises the following:

2021	**(SAR'000)**			
	Performing	**Non-performing**	**Allowance for impairment**	**Net financing**
Mutajara	**68,203,350**	**1,469,013**	**(3,959,756)**	**65,712,607**
Installment sale	**370,497,370**	**1,480,870**	**(4,978,513)**	**366,999,727**
Murabaha	**16,625,088**	**36,520**	**(61,718)**	**16,599,890**
Credit cards	**3,692,903**	**23,697**	**(198,167)**	**3,518,433**
Total	**459,018,711**	**3,010,100**	**(9,198,154)**	**452,830,657**

2020	(SAR'000)			
	Performing	Non-performing	Allowance for impairment	Net financing
Mutajara	38,574,292	1,652,936	(2,995,894)	37,231,334
Installment sale	259,150,038	728,401	(4,398,923)	255,479,516
Murabaha	19,687,898	37,929	(55,734)	19,670,093
Credit cards	3,326,115	25,848	(20,805)	3,331,158
Total	320,738,343	2,445,114	(7,471,356)	315,712,101

7. FINANCING, NET (continued)

7–1 Financing (continued)

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

2021	**(SAR'000)**				
	Mutajara	Installment sale	Murabaha	Credit cards	Total
Inside the Kingdom of Saudi Arabia	**68,293,335**	**367,098,242**	**12,111,030**	**3,709,899**	**451,212,506**
Outside the Kingdom of Saudi Arabia	**1,379,028**	**4,879,998**	**4,550,578**	**6,701**	**10,816,305**
Gross financing	**69,672,363**	**371,978,240**	**16,661,608**	**3,716,600**	**462,028,811**
Allowance for impairment	**(3,959,756)**	**(4,978,513)**	**(61,718)**	**(198,167)**	**(9,198,154)**
Net financing	**65,712,607**	**366,999,727**	**16,599,890**	**3,518,433**	**452,830,657**

2020	(SAR'000)				
	Mutajara	Installment sale	Murabaha	Credit cards	Total
Inside the Kingdom of Saudi Arabia	39,424,015	255,124,933	15,399,038	3,345,758	313,293,744
Outside the Kingdom of Saudi Arabia	803,213	4,753,506	4,326,789	6,205	9,889,713
Gross financing	40,227,228	259,878,439	19,725,827	3,351,963	323,183,457
Allowance for impairment	(2,995,894)	(4,398,923)	(55,734)	(20,805)	(7,471,356)
Net financing	37,231,334	255,479,516	19,670,093	3,331,158	315,712,101

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

2021	**(SAR'000)**		
	Retail	**Corporate**	**Total**
Mutajara	**2,820,209**	**66,852,154**	**69,672,363**
Installment sale	**364,418,308**	**7,559,932**	**371,978,240**
Murabaha	-	**16,661,608**	**16,661,608**
Credit cards	**3,712,263**	**4,337**	**3,716,600**
Gross financing	**370,950,780**	**91,078,031**	**462,028,811**
Less: Allowance for impairment	**(5,201,431)**	**(3,996,723)**	**(9,198,154)**
Financing, net	**365,749,349**	**87,081,308**	**452,830,657**

2020	(SAR'000)		
	Retail	Corporate	Total
Mutajara	1,202,886	39,024,342	40,227,228
Installment sale	250,470,267	9,408,172	259,878,439
Murabaha	-	19,725,827	19,725,827
Credit cards	3,351,963	-	3,351,963
Gross financing	255,025,116	68,158,341	323,183,457
Less: Allowance for impairment	(4,341,561)	(3,129,795)	(7,471,356)
Financing, net	250,683,555	65,028,546	315,712,101

7. FINANCING, NET (continued)

7–1 Financing (continued)

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

2021	**(SAR'000)**					
	Neither past due nor impaired	**Past due but not impaired**	**Impaired**	**Total**	**Allowance for impairment**	**Net financing**
Retail	**361,318,535**	**8,132,148**	**1,500,097**	**370,950,780**	**(5,201,431)**	**365,749,349**
Corporate	**88,335,265**	**1,232,763**	**1,510,003**	**91,078,031**	**(3,996,723)**	**87,081,308**
Total	**449,653,800**	**9,364,911**	**3,010,100**	**462,028,811**	**(9,198,154)**	**452,830,657**

2020	(SAR'000)					
	Neither past due nor impaired	Past due but not impaired	Impaired	Total	Allowance for impairment	Net financing
Retail	249,438,952	4,831,915	754,249	255,025,116	(4,341,561)	250,683,555
Corporate	65,880,738	586,738	1,690,865	68,158,341	(3,129,795)	65,028,546
Total	315,319,690	5,418,653	2,445,114	323,183,457	(7,471,356)	315,712,101

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

e. The movements of the three credit quality stages for the gross carrying amount of financing facilities held at amortized cost:

2021	**(SAR '000')**			
	12 month ECL	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Financings to customers at amortized cost				
Balance at 1 January 2021	**311,275,457**	**8,460,233**	**3,447,767**	**323,183,457**
Transfer to 12 month ECL	**1,538,438**	**(1,534,491)**	**(3,947)**	-
Transfer to Lifetime ECL not credit impaired	**(3,669,318)**	**3,836,110**	**(166,792)**	-
Transfer to Lifetime ECL credit impaired	**(687,863)**	**(271,691)**	**959,554**	-
Write-offs	-	-	**(2,075,430)**	**(2,075,430)**
New Business / Movement	**139,837,595**	**(932,283)**	**2,015,472**	**140,920,784**
Balance as at 31 December 2021	**448,294,309**	**9,557,878**	**4,176,624**	**462,028,811**

7. FINANCING, NET (continued)

7–1 Financing (continued)

2020	(SAR '000')			
	12 month ECL	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Financings to customers at amortized cost				
Balance at 1 January 2020	244,233,852	9,730,884	2,737,665	256,702,401
Transfer to 12 month ECL	1,449,420	(1,449,420)	-	-
Transfer to Lifetime ECL not credit impaired	(3,152,174)	3,257,062	(104,888)	-
Transfer to Lifetime ECL credit impaired	(612,721)	(743,353)	1,356,074	-
Write-offs	-	-	(2,766,535)	(2,766,535)
New Business / Movement	69,357,080	(2,334,940)	2,225,451	69,247,591
Balance as at 31 December 2020	311,275,457	8,460,233	3,447,767	323,183,457

Closing balance of Lifetime ECL credit impaired differs from total reported Non-Performing financing due to IFRS 9 implementation.

f. The movements of the three credit quality stages of carrying amount of financing held at amortized cost allocated by:

1. Retail Segment:

2021	**(SAR '000')**			
Financings to customers at amortized cost	**12 month ECL**	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at 1 January 2021	**250,650,984**	**2,617,230**	**1,756,902**	**255,025,116**
Transfer to 12 month ECL	**1,411,781**	**(1,407,834)**	**(3,947)**	-
Transfer to Lifetime ECL not credit impaired	**(2,920,325)**	**3,087,106**	**(166,781)**	-
Transfer to Lifetime ECL credit impaired	**(571,770)**	**(242,959)**	**814,729**	-
Write-offs	-	-	**(1,778,995)**	**(1,778,995)**
New Business / Movement	**115,364,802**	**295,144**	**2,044,713**	**117,704,659**
Balance as at 31 December 2021	**363,935,472**	**4,348,687**	**2,666,621**	**370,950,780**

2020	(SAR '000')			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January 2020	186,184,436	3,320,473	1,050,591	190,555,500
Transfer to 12 month ECL	820,807	(820,807)	-	-
Transfer to Lifetime ECL not credit impaired	(2,018,928)	2,123,816	(104,888)	-
Transfer to Lifetime ECL credit impaired	(422,408)	(144,054)	566,462	-
Write-offs	-	-	(1,676,297)	(1,676,297)
New Business / Movement	66,087,077	(1,862,198)	1,921,034	66,145,913
Balance as at 31 December 2020	250,650,984	2,617,230	1,756,902	255,025,116

7. FINANCING, NET (continued)

7–1 Financing (continued)

2. Corporate Segment:

2021	**(SAR '000')**			
Financings to customers at amortized cost	**12 month ECL**	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at 1 January 2021	**60,624,473**	**5,843,003**	**1,690,865**	**68,158,341**
Transfer to 12 month ECL	**126,657**	**(126,657)**	-	-
Transfer to Lifetime ECL not credit impaired	**(748,993)**	**749,004**	**(11)**	-
Transfer to Lifetime ECL credit impaired	**(116,093)**	**(28,732)**	**144,825**	-
Write-offs	-	-	**(296,435)**	**(296,435)**
New Business / Movement	**24,472,793**	**(1,227,427)**	**(29,241)**	**23,216,125**
Balance as at 31 December 2021	**84,358,837**	**5,209,191**	**1,510,003**	**91,078,031**

2020	(SAR '000')			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January 2020	58,049,416	6,410,411	1,687,074	66,146,901
Transfer to 12 month ECL	628,613	(628,613)	-	-
Transfer to Lifetime ECL not credit impaired	(1,133,246)	1,133,246	-	-
Transfer to Lifetime ECL credit impaired	(190,313)	(599,299)	789,612	-
Write-offs	-	-	(1,090,238)	(1,090,238)
New Business / Movement	3,270,003	(472,742)	304,417	3,101,678
Balance as at 31 December 2020	60,624,473	5,843,003	1,690,865	68,158,341

7. FINANCING, NET (continued)

7-2 Allowance for impairment of financing:

a. The movement in the allowance for impairment of financing for the years ended 31 December is as follows:

2021		**(SAR'000)**	
	Retail	**Corporate**	**Total**
Balance at beginning of the year	**4,341,561**	**3,129,795**	**7,471,356**
Gross charge for the year	**2,638,865**	**1,163,363**	**3,802,228**
Bad debts written off against provision	**(1,778,995)**	**(296,435)**	**(2,075,430)**
Balance at the end of the year	**5,201,431**	**3,996,723**	**9,198,154**

2020		(SAR'000)	
	Retail	Corporate	Total
Balance at beginning of the year	3,808,273	3,211,323	7,019,596
Gross charge for the year	2,209,585	1,008,710	3,218,295
Bad debts written off against provision	(1,676,297)	(1,090,238)	(2,766,535)
Balance at the end of the year	4,341,561	3,129,795	7,471,356

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

2021	**(SAR '000')**			
Allowance for impairment of financing	**12 month ECL**	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at 1 January 2021	**2,944,807**	**2,030,356**	**2,496,193**	**7,471,356**
Transfer to 12 month ECL	**314,742**	**(312,458)**	**(2,284)**	**-**
Transfer to Lifetime ECL not credit impaired	**(79,419)**	**174,580**	**(95,161)**	**-**
Transfer to Lifetime ECL credit impaired	**(47,348)**	**(126,873)**	**174,221**	**-**
Charge for the year	**580,193**	**560,809**	**2,661,226**	**3,802,228**
Write-offs	**-**	**-**	**(2,075,430)**	**(2,075,430)**
Balance as at 31 December 2021	**3,712,975**	**2,326,414**	**3,158,765**	**9,198,154**

7. FINANCING, NET (continued)

7-2 Allowance for impairment of financing (continued):

2020	(SAR '000')			
Allowance for impairment of financing	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January 2020	2,228,200	2,948,959	1,842,437	7,019,596
Transfer to 12 month ECL	256,884	(256,884)	-	-
Transfer to Lifetime ECL not credit impaired	(65,311)	118,509	(53,198)	-
Transfer to Lifetime ECL credit impaired	(15,472)	(247,994)	263,466	-
Charge for the period	540,506	(532,234)	3,210,023	3,218,295
Write-offs	-	-	(2,766,535)	(2,766,535)
Balance as at 31 December 2020	2,944,807	2,030,356	2,496,193	7,471,356

c. The ECL movements of the three credit quality stages of financing held at amortized cost of:
1. Allocated by Retail Segment:

2021	**(SAR '000')**			
Allowance for impairment of financing	**12 month ECL**	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at 1 January 2021	**2,388,807**	**839,120**	**1,113,634**	**4,341,561**
Transfer to 12 month ECL	**299,724**	**(297,440)**	**(2,284)**	**-**
Transfer to Lifetime ECL not credit impaired	**(75,477)**	**170,631**	**(95,154)**	**-**
Transfer to Lifetime ECL credit impaired	**(24,201)**	**(120,776)**	**144,977**	**-**
Charge for the year	**(287,270)**	**425,837**	**2,500,298**	**2,638,865**
Write-offs	**-**	**-**	**(1,778,995)**	**(1,778,995)**
Balance as at 31 December 2021	**2,301,583**	**1,017,372**	**1,882,476**	**5,201,431**

2020	(SAR '000')			
Allowance for impairment of financing	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January 2020	1,632,206	1,662,188	513,879	3,808,273
Transfer to 12 month ECL	206,493	(206,493)	-	-
Transfer to Lifetime ECL not credit impaired	(53,588)	106,625	(53,037)	-
Transfer to Lifetime ECL credit impaired	(10,890)	(60,716)	71,606	-
Charge for the year	614,586	(662,484)	2,257,483	2,209,585
Write-offs	-	-	(1,676,297)	(1,676,297)
Balance as at 31 December 2020	2,388,807	839,120	1,113,634	4,341,561

7. FINANCING, NET (continued)

7-2 Allowance for impairment of financing (continued):

2. Allocated by Corporate Segment:

2021	**(SAR '000')**			
Allowance for impairment of financing	**12 month ECL**	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at 1 January 2021	**556,000**	**1,191,236**	**1,382,559**	**3,129,795**
Transfer to 12 month ECL	**15,018**	**(15,018)**	**-**	**-**
Transfer to Lifetime ECL not credit impaired	**(3,942)**	**3,949**	**(7)**	**-**
Transfer to Lifetime ECL credit impaired	**(23,147)**	**(6,097)**	**29,244**	**-**
Charge for the year	**867,463**	**134,972**	**160,928**	**1,163,363**
Write-offs	**-**	**-**	**(296,435)**	**(296,435)**
Balance as at 31 December 2021	**1,411,392**	**1,309,042**	**1,276,289**	**3,996,723**

2020	(SAR '000')			
Allowance for impairment of financing	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January 2020	595,994	1,286,771	1,328,558	3,211,323
Transfer to 12 month ECL	50,391	(50,391)	-	-
Transfer to Lifetime ECL not credit impaired	(11,723)	11,884	(161)	-
Transfer to Lifetime ECL credit impaired	(4,582)	(187,278)	191,860	-
Charge for the period	(74,080)	130,250	952,540	1,008,710
Write-offs	-	-	(1,090,238)	(1,090,238)
Balance as at 31 December 2020	556,000	1,191,236	1,382,559	3,129,795

7-3 Impairment charge movement

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

	(SAR'000)	
	2021	2020
Provided for the year for on balance sheet	**3,806,679**	3,218,295
Provided for the year for off balance sheet	**(134,984)**	200,130
Recovery of written off financing, net	**(1,326,609)**	(1,252,685)
Allowance for financing impairment, net	**2,345,086**	2,165,740

7. FINANCING, NET (continued)

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

	(SAR'000)	
	2021	2020
Gross receivables from finance leases	**27,020,295**	24,042,741
Less than 1 year	**6,286**	1,313,474
1 to 5 years	**17,532,469**	15,397,354
Over 5 years	**9,481,540**	7,331,913
	27,020,295	24,042,741
Unearned future finance income on finance leases	**(3,404,832)**	(3,226,606)
Expect credit loss from finance leases	**(444,532)**	(291,584)
Net receivables from finance leases	**23,170,931**	20,524,551

8. PROPERTY AND EQUIPMENT, NET

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

	(SAR'000)					
	Land	**Buildings**	**Leasehold land & buildings improvements**	**Equipment and furniture**	**Right-of-Use assets**	**Total**
COST						
At 1 January 2020	2,337,885	6,213,799	1,333,461	5,303,941	1,530,099	16,719,185
Additions	27,675	6,964	259,571	630,849	20,627	945,686
Disposals	(14,588)	(38,884)	-	(45,287)	-	(98,759)
At 31 December 2020	**2,350,972**	**6,181,879**	**1,593,032**	**5,889,503**	**1,550,726**	**17,566,112**
Additions	**106,569**	**137,327**	**46,358**	**2,093,072**	**3,159**	**2,386,485**
Disposals	**(20,768)**	**(126,856)**	**-**	**(1,154,444)**	**-**	**(1,302,068)**
At 31 December 2021	**2,436,773**	**6,192,350**	**1,639,390**	**6,828,131**	**1,553,885**	**18,650,529**
ACCUMULATED DEPRECIATION						
As at 1 January 2020	-	858,023	996,846	4,217,232	239,837	6,311,938
Charge for the year	-	137,154	102,203	628,072	212,742	1,080,171
Disposals	-	(31,984)	-	(28,797)	-	(60,781)
At 31 December 2020	**-**	**963,193**	**1,099,049**	**4,816,507**	**452,579**	**7,331,328**
Charge for the year	**-**	**135,205**	**61**	**770,055**	**210,959**	**1,116,280**
Disposals	**-**	**(1,044)**	**-**	**(461,834)**	**-**	**(462,878)**
At 31 December 2021	**-**	**1,097,354**	**1,099,110**	**5,124,728**	**663,538**	**7,984,730**
NET BOOK VALUE						
At 31 December 2021	**2,436,773**	**5,094,996**	**540,280**	**1,703,402**	**890,348**	**10,665,799**
At 31 December 2020	2,350,972	5,218,686	493,983	1,072,996	1,098,147	10,234,785

Buildings include work-in-progress amounting to SAR 271 million as at 31 December 2021 (2020: SAR 225 million), and technology-related assets include work-in-progress amounting to SAR 419 million as of December 2021 (2020: SAR 595 million).

8. PROPERTY AND EQUIPMENT, NET (continued)

Equipment and furniture includes information technology-related assets as follows:

	(SAR'000)		
2021	**Tangible**	**Intangible**	**Total**
COST			
At 31 December 2020	1,810,725	102,614	1,913,339
Additions	**857,511**	**7,008**	**864,519**
Disposals	**(12,641)**	**-**	**(12,641)**
At 31 December 2021	**2,655,595**	**109,622**	**2,765,217**
ACCUMULATED DEPRECIATION			
At 31 December 2020	1,157,364	14,687	1,172,051
Charge for the year	**232,500**	**45,965**	**298,465**
Disposals	**(12,430)**	**-**	**(12,430)**
At 31 December 2021	**1,377,434**	**60,652**	**1,438,086**
NET BOOK VALUE			
At 31 December 2021	**1,278,161**	**48,970**	**1,327,131**
At 31 December 2020	653,361	87,927	741,288

9. INVESTMENT PROPERTIES, NET

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

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

	(SAR'000)		
	Land	Buildings	Total
COST			
Balance at 1 January 2020	894,423	559,503	1,453,926
Additions	-	195,339	195,339
At 31 December 2020	894,423	754,842	1,649,265
Additions	**-**	**1,452**	**1,452**
Disposals	**-**	**(105,542)**	**(105,542)**
At 31 December 2021	**894,423**	**650,752**	**1,545,175**
ACCUMULATED DEPRECIATION			
Balance at 1 January 2020	-	70,077	70,077
Charge for the year	-	37,977	37,977
At 31 December 2020	-	108,054	108,054
Charge for the year	**-**	**25,652**	**25,652**
At 31 December 2021	**-**	**133,706**	**133,706**
NET BOOK VALUE			
At 31 December 2021	**894,423**	**517,046**	**1,411,469**
At 31 December 2020	894,423	646,788	1,541,211

10. OTHER ASSETS, NET

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

	(SAR'000)	
	2021	2020
Receivables, net	**2,961,252**	1,613,343
Prepaid expenses	**462,550**	218,304
Assets in transit subject to financing	**2,716,492**	1,332,565
Accrued income	**367,345**	276,169
Cheques under collection	**374,668**	413,397
Advance payments	**235,453**	262,475
Other real estate	**28,023**	73,411
Non-Current assets (assets held for sale)	**102,991**	-
Others, net	**652,980**	844,326
Total	**7,901,754**	5,033,990

11. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

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

	(SAR'000)	
	2021	2020
Current accounts	**1,749,131**	448,288
Banks' time investments	**16,203,009**	10,315,773
Total	**17,952,140**	10,764,061

In order to offset the modification losses that the Group is expected to incur in deferring payments under the Private Sector Financing Support Program as disclosed in note 39, the Group has received, during years ended 31 December 2020 and 2021, certain profit free deposits of SAR 2.97 billion with an original maturity of 3 years and SAR 674 million with an original maturity of 1.5 years, some of these deposits' tenures were subsequently extended by SAMA. The Group has received SAR 5.2 billion for 1 year that has matured during Q2 2021, and SAR 3.5 billion with an original maturity of 3 months that has matured during Q3 2021. In September 2021, the Group has received SAR 4 billion with a maturity of 3 years. Please refer to note 39 for further details.

12. CUSTOMERS' DEPOSITS

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

	(SAR'000)	
	2021	2020
Demand deposits	**374,725,352**	332,918,203
Customers' time investments	**130,293,061**	43,017,282
Other customer accounts	**7,053,800**	6,695,518
Total	**512,072,213**	382,631,003

The balance of the other customers' accounts includes margins on letters of credit and guarantees, cheques under clearance and transfers. All Customers' time investments are subject to Murabaha contracts and therefore are non-interest.

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

	(SAR'000)	
	2021	2020
Saudi Arabian Riyals	**475,448,079**	365,253,514
Foreign currencies	**36,624,134**	17,377,489
Total	**512,072,213**	382,631,003

13. OTHER LIABILITIES

Other liabilities comprise the following as of 31 December:

	(SAR'000) 2021	2020
Accounts payable	**5,400,941**	4,317,852
Employees' end of service benefits liabilities (note 25)	**1,198,261**	1,176,075
Accrued expenses	**2,266,988**	1,554,957
Special commission income excluded from the consolidated financial statements (note 32)	**29,771**	8,885
Zakat payable (note 37)	**3,424,929**	3,812,601
Lease liability	**927,764**	1,128,141
Loss allowance on financial commitments and financial guarantees	**415,591**	550,575
Payable to Developers	**4,890,003**	-
Other	**7,784,463**	4,762,055
Total	**26,338,711**	17,311,141

The loss allowance on financial commitments and financial guarantees are further depicted in Commitments and Contingencies (note 16 - d).

14. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank consists of 2,500 million shares of SAR 10 each as of 31 December 2021 (31 December 2020: 2,500 million shares of SAR 10 each).

15. STATUTORY AND OTHER RESERVES

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

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

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

2021

(SAR'000)	**FVOCI investments**	**Foreign currency translation**	**Employee share Plan reserve**	**Re-measurement of employees' end of service benefits**	**Share in OCI from associate**	**Total**
Balance at beginning of the year	**173,278**	**(113,881)**	**37,110**	**(231,235)**	**-**	**(134,728)**
Net change in fair value	**399,339**	**-**	**-**	**-**	**-**	**399,339**
Exchange difference on translation of foreign operations	**-**	**(21,316)**	**-**	**-**		**(21,316)**
Re-measurement of employees' end of service benefits (note 25)	**-**	**-**	**-**	**42,055**	**-**	**42,055**
Share in OCI from associate	**-**	**-**	**-**	**-**	**24,044**	**24,044**
Balance at the end of the year	**572,617**	**(135,197)**	**37,110**	**(189,180)**	**24,044**	**309,394**

2020

(SAR'000)	FVOCI investments	Foreign currency translation	Employee share Plan reserve	Re-measurement of employees' end of service benefits	Total
Balance at beginning of the year	(80,944)	(120,577)	37,110	(51,630)	(216,041)
Net change in fair value	254,222	-	-	-	254,222
Exchange difference on translation of foreign operations	-	6,696	-	-	6,696
Re-measurement of employees' end of service benefits (note 25)	-	-	-	(179,605)	(179,605)
Balance at the end of the year	173,278	(113,881)	37,110	(231,235)	(134,728)

16. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

As at 31 December 2021, there were certain legal proceedings outstanding against the Group in the normal course of business including those relating to the extension of credit facilities. Such proceedings are being reviewed by the concerned parties.

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

The bank was named as one of many defendants in certain lawsuits initiated in the US commencing in 2002. The bank was successful in defending the claims, all of which were finally dismissed by the relevant courts. With respect to new lawsuits commencing in 2016, however, the most recent dismissal was reversed by the court of appeals to permit limited jurisdictional discovery, which commenced in 2021. The bank's management believes that the claims will be defended successfully, although note that there are inherent uncertainties in litigation.

b) Capital commitments

As at 31 December 2021, the Group had capital commitments of SAR 458 million (2020: SAR 540 million) relating to contracts for computer software update and development, and SAR 193 million (2020: SAR 238 million) relating to building new workstations, and development and improvement of new and existing branches.

c) Credit related commitments and contingencies

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

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

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

Commitments to extend credit represent unused portions of authorization to extended credit, principally in the form of financing, guarantees and letters of credit. With respect to credit risk relating to commitments to extend unused credit, the Group is potentially exposed to a loss in an amount which is equal to the total unused commitments. The likely amount of loss, which cannot be reasonably estimated, is expected to be considerably less than the total unused commitments, since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

AL RAJHI BANKING AND INVESTMENT CORPORATION (A SAUDI JOINT STOCK COMPANY)

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16. COMMITMENTS AND CONTINGENCIES (continued)

c) Credit related commitments and contingencies (continued)

The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire without being funded.

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

2021	**(SAR'000)**				
	Less than 3 months	**From 3 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
Letters of credit	**2,147,992**	**2,733,885**	**331,344**	**-**	**5,213,221**
Letters of guarantee	**1,415,796**	**4,599,305**	**1,388,832**	**327,643**	**7,731,576**
Acceptances	**583,808**	**273,752**	**-**	**-**	**857,560**
Irrevocable commitments to extend credit	**1,540,867**	**8,390,296**	**1,306,996**	**46,713**	**11,284,872**
Total	**5,688,463**	**15,997,238**	**3,027,172**	**374,356**	**25,087,229**

2020	(SAR'000)				
	Less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Letters of credit	1,729,492	545,033	104,908	-	2,379,433
Letters of guarantee	760,935	3,310,309	1,171,463	200,481	5,443,188
Acceptances	305,577	365,191	-	-	670,768
Irrevocable commitments to extend credit	3,880,062	6,265,899	516,740	-	10,662,701
Total	6,676,066	10,486,432	1,793,111	200,481	19,156,090

d) Contingent commitments that may result in credit exposure

The table below shows the gross carrying amount and ECL allowance of the financing commitments and financial guarantees.

2021	**(SAR'000)**				
	Letter of credits	**Acceptances**	**Letter of guarantees**	**Irrevocable commitments to extend credit**	**Total**
Gross carrying amount					
Stage 1 - (12-months ECL)	**5,186,457**	**856,792**	**7,006,356**	**11,065,878**	**24,115,483**
Stage 2 - (lifetime ECL not credit impaired)	**24,328**	**768**	**356,166**	**210,608**	**591,870**
Stage 3 - (lifetime ECL for credit impaired)	**2,436**	**-**	**369,054**	**8,386**	**379,876**
Total outstanding balance at end of the year	**5,213,221**	**857,560**	**7,731,576**	**11,284,872**	**25,087,229**
Credit loss allowance of the financing commitments and financial guarantees					
Stage 1 - (12-months ECL)	**61,532**	**821**	**13,780**	**6,982**	**83,115**
Stage 2 - (lifetime ECL not credit impaired)	**103**	**39**	**2,727**	**2,043**	**4,912**
Stage 3 - (lifetime ECL for credit impaired)	**2,436**	**-**	**319,577**	**5,551**	**327,564**
Total	**64,071**	**860**	**336,084**	**14,576**	**415,591**

16. COMMITMENTS AND CONTINGENCIES (continued)

d) Contingent commitments that may result in credit exposure (continued)

2020	(SAR'000)				
	Letter of credits	Acceptances	Letter of guarantees	Irrevocable commitments to extend credit	Total
Gross carrying amount					
Stage 1 - (12-months ECL)	2,341,991	660,394	4,329,805	10,392,221	17,724,411
Stage 2 - (lifetime ECL not credit impaired)	33,933	10,374	570,077	255,090	869,474
Stage 3 - (lifetime ECL for credit impaired)	3,509	-	543,306	15,390	562,205
Total	2,379,433	670,768	5,443,188	10,662,701	19,156,090
Credit loss allowance of the financing commitments and financial guarantees					
Stage 1 - (12-months ECL)	15,460	1,414	19,695	7,789	44,357
Stage 2 - (lifetime ECL not credit impaired)	63	112	3,177	3,905	7,257
Stage 3 - (lifetime ECL for credit impaired)	3,509	-	489,917	5,534	498,960
Total	19,032	1,526	512,789	17,228	550,575

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

	(SAR'000)	
	2021	2020
Corporates	**23,381,445**	18,318,019
Banks and other financial institutions	**1,705,784**	838,071
Total	**25,087,229**	19,156,090

17. NET FINANCING AND INVESTMENT INCOME

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

	(SAR'000)	
	2021	2020
Financing		
Corporate Mutajara	**2,263,820**	1,629,182
Installment sale	**15,806,344**	12,819,648
Murabaha	**686,398**	802,882
Investments and other		
Murabaha with SAMA	**1,167,653**	970,595
Mutajara with banks	**1,230,388**	980,343
Income from sukuk	**286,903**	175,313
Gross financing and investment income	**21,441,506**	17,377,963
Return on customers' time investments	**(803,888)**	(354,193)
Return on due to banks and financial institutions' time investments	**(245,682)**	(110,753)
Return on customers', banks' and financial institutions' time investments	**(1,049,570)**	(464,946)
Net financing and investment income	**20,391,936**	16,913,017

18. FEE FROM BANKING SERVICES, NET

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

	(SAR'000)	
	2021	2020
Fee income:		
Drafts and remittances	**258,878**	270,434
Credit cards	**515,992**	416,816
Other electronic channel related	**1,514,817**	1,218,272
Brokerage and asset management, net	**803,484**	672,193
Others	**1,376,306**	702,423
Total fee income	**4,469,477**	3,280,138
Fee expenses:		
ATM Interchange related	**(536,370)**	(620,458)
Fee from banking services, net	**3,933,107**	2,659,680

19. OTHER OPERATING INCOME, NET

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

	(SAR'000)	
	2021	2020
Dividend income	**169,602**	94,445
Gain on sale of property and equipment, net	**47,511**	10,256
Rental income from investment properties	**94,693**	96,134
Share in profit of an associate	**32,030**	42,944
Gain/(loss) on investments held as FVSI	**(37,897)**	33,441
Loss on sale of other real estate	**-**	(2,251)
Other income, net	**297,518**	89,700
Total	**603,457**	364,669

20. SALARIES AND EMPLOYEES' RELATED BENEFITS

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

2021	**(SAR'000)**			
			Variable compensations paid	
	Number of employees	**Fixed and variable compensation**	**Cash**	**Shares**
Executives	**23**	**40,790**	**20,926**	**42,322**
Employees engaged in risk taking activities	**2,077**	**568,126**	**161,216**	**22,242**
Employees engaged in control functions	**610**	**178,878**	**27,190**	**19,241**
Other employees	**12,368**	**1,789,839**	**385,506**	**34,675**
Total	**15,078**	**2,577,633**	**594,838**	**118,480**
Accrued compensations in 2021	-	**231,087**	-	-
Other employees' costs	-	**323,626**	-	-
Gross total	**15,078**	**3,132,346**	**594,838**	**118,480**

2020	(SAR'000)			
			Variable compensations paid	
	Number of employees	Fixed and variable compensation	Cash	Shares
Executives	22	40,552	20,591	45,954
Employees engaged in risk taking activities	1,684	509,487	131,639	20,312
Employees engaged in control functions	412	155,859	25,969	21,608
Other employees	11,598	1,826,261	274,757	28,022
Total	13,716	2,532,159	452,956	115,896
Accrued compensations in 2020	-	188,652	-	-
Other employees' costs	-	256,533	-	-
Gross total	13,716	2,977,344	452,956	115,896

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

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

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

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

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

20. SALARIES AND EMPLOYEES' RELATED BENEFITS (continued)

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

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

21. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

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

	(SAR'000)	
	2021	2020
Communications and utilities expenses	**638,822**	628,591
Maintenance and security expenses	**424,722**	547,520
Cash feeding and transfer expenses	**261,042**	338,404
Software and IT support expenses	**315,836**	351,348
Other operational expenses	**1,011,822**	780,546
Total	**2,652,244**	2,646,409

22. EARNINGS PER SHARE

Earnings per share for the years ended 31 December 2021 and 2020 have been calculated by dividing the net income for the year by 2,500 million shares. The diluted earnings per share is the same as the basic earnings per share.

23. PAID DIVIDENDS

The Board of Directors of Al Rajhi Bank approved on 29 June 2021 to distribute cash dividends to the shareholders for the first half of 2021, amounting to SAR 3,500 million, being SAR 1.40 per share. These dividends were subsequently paid on 14 July 2021.

The Board of Directors proposed on 28 February 2021, distribution of final dividends to shareholders for the year ended 31 December 2020, amounting to SAR 2,500 million, being SAR 1 per share. The proposed final dividends for 2020 was approved by the Annual General Assembly in its meeting held on 29 March 2021. These dividends were subsequently paid on 6 April 2021.

The Board of Directors proposed on 2 February 2020, distribution of final dividends to shareholders for the year ended 31 December 2019, amounting to SAR 3,750 million, being SAR 1.5 per share. The proposed final dividends for 2019 was approved by the Annual General Assembly in its meeting held on 29 March 2020. These dividends were subsequently paid on 6 April 2020.

24. CASH AND CASH EQUIVALENTS

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

	(SAR'000)	
	2021	2020
Cash in hand	**5,445,994**	7,355,940
Due from banks and other financial institutions maturing within 90 days from the date of purchased	**10,680,328**	8,924,379
Balances with SAMA and other central banks (current accounts)	**314,005**	311,493
Mutajara with SAMA	**5,799,920**	16,235,549
Total	**22,240,247**	32,827,361

25. EMPLOYEES' END OF SERVICE BENEFITS LIABILITIES

25.1 General description

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

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

	(SAR'000)	
	2021	2020
Employees' end of service benefits liabilities at the beginning of the year	**1,176,075**	980,304
Current service cost	**146,375**	86,355
Financing cost	**33,264**	38,041
Benefits paid	**(115,398)**	(108,230)
Remeasurement (gain)/loss	**(42,055)**	179,605
Employees' end of service benefits liabilities at the end of the year	**1,198,261**	1,176,075

25.3 Charge for the year

	(SAR'000)	
	2021	2020
Current service cost	**146,375**	86,355
Past service cost	**-**	-
	146,375	86,355

25.4 Re-measurement recognised in other comprehensive income

	(SAR'000)	
	2021	2020
(Gain)/loss from change in experience assumptions	**6,528**	(10,911)
(Gain)/loss from change in demographic assumptions		532
(Gain)/loss from change in financial assumptions	**(48,583)**	189,984
	(42,055)	179,605

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

	2021	2020
Discount rate	**3.05%**	2.75%
Expected rate of salary increase	**2.5% for FY 2022 and 3% thereafter**	2.6% for FY 2021 and 2022 and 3% thereafter
Normal retirement age	**60 years for male employees and 55 for female employees**	60 years for male employees and 55 for female employees

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

25. EMPLOYEES' END OF SERVICE BENEFITS LIABILITIES (continued)

25.6 Sensitivity of actuarial assumptions

The table below illustrates the sensitivity of the employees' end of service benefits liabilities valuation as at 31 December 2021 to the discount rate 3.05% (31 December 2020: 2.75%), salary increase rate 2.5% (31 December 2020: 2.6%), withdrawal assumptions and mortality rates.

2021	**SAR 000'**		
	Impact on defined benefit obligation – Increase / (Decrease)		
Base Scenario	**Change in assumption**	**Increase in assumption**	**Decrease in assumption**
Discount rate	**+/- 100 basis points**	**(119,306)**	**140,910**
Expected rate of salary increase	**+/- 100 basis points**	**139,572**	**(120,486)**
Normal retirement age	**Increase or decrease by 20%**	**(9,825)**	**10,113**

2020	SAR 000'		
	Impact on defined benefit obligation – Increase / (Decrease)		
Base Scenario	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	+/- 100 basis points	(120,862)	143,318
Expected rate of salary increase	+/- 100 basis points	141,537	(121,755)
Normal retirement age	Increase or decrease by 20%	(14,148)	15,024

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

25.7 Expected maturity

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

As at 31 December	Discounted liability	Less than a year	1-2 years	2-5 years	Over 5 years	Total
2021	**1,198,261**	**89,324**	**93,492**	**332,743**	**2,994,291**	**3,509,850**
2020	1,176,075	82,333	91,365	307,844	2,894,768	3,376,310

The weighted average duration of the employees' end of service benefits liabilities is 12.7 years (2020: 13years).

26. OPERATING SEGMENTS

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

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

Retail segment: Includes individual customer deposits, credit facilities, customer debit current accounts (overdrafts) and fees from banking services.

Corporate segment: Incorporates deposits of corporate customers, credit facilities, and debit current accounts (overdrafts).

Treasury segment: Includes treasury services, Murabaha with SAMA and international Mutajara portfolio and remittance business.

Investment services and brokerage segments: Includes investments of individuals and corporates in mutual funds, local and international share trading services and investment portfolios.

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

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

	(SAR'000)				
2021	**Retail segment**	**Corporate segment**	**Treasury segment**	**Investment services and brokerage segment**	**Total**
Total assets	**418,026,653**	**88,031,046**	**112,692,243**	**4,921,973**	**623,671,915**
Total liabilities	**319,610,568**	**207,506,186**	**29,156,964**	**89,346**	**556,363,064**
Gross financing and investment income from external customers	**16,060,249**	**3,199,791**	**2,106,498**	**74,968**	**21,441,506**
Inter-segment operating income / (expense)	**(4,549,247)**	**(63,795)**	**4,613,042**	**-**	**-**
Gross financing and investment income	**11,511,002**	**3,135,996**	**6,719,540**	**74,968**	**21,441,506**
Return on customers', banks' and financial institutions' time investments	**(158,337)**	**(695,687)**	**(195,546)**	**-**	**(1,049,570)**
Net financing and investment income	**11,352,665**	**2,440,309**	**6,523,994**	**74,968**	**20,391,936**
Fees from banking services, net	**2,103,700**	**973,970**	**59,677**	**795,760**	**3,933,107**
Exchange income, net	**413,470**	**106,067**	**268,361**	**-**	**787,898**
Other operating income, net	**136,870**	**-**	**363,179**	**103,408**	**603,457**
Total operating income	**14,006,705**	**3,520,346**	**7,215,211**	**974,136**	**25,716,398**
Depreciation and amortization	**(1,057,504)**	**(49,832)**	**(23,609)**	**(10,987)**	**(1,141,932)**
Impairment charge for financing and other financial assets, net	**(1,785,410)**	**(566,292)**	**6,616**	**-**	**(2,345,086)**
Other operating expenses	**(4,974,437)**	**(487,561)**	**(161,191)**	**(161,401)**	**(5,784,590)**
Total operating expenses	**(7,817,351)**	**(1,103,685)**	**(178,184)**	**(172,388)**	**(9,271,608)**
Income before zakat	**6,189,354**	**2,416,661**	**7,037,027**	**801,748**	**16,444,790**

26. OPERATING SEGMENTS (continued)

2020	(SAR'000) Retail segment	Corporate segment	Treasury segment	Investment services and brokerage segment	Total
Total assets	268,108,818	66,837,086	129,950,664	3,928,155	468,824,723
Total liabilities	289,583,836	108,514,833	12,442,931	164,605	410,706,205
Gross financing and investments income from external customers	12,663,067	2,605,516	2,061,630	47,750	17,377,963
Inter-segment operating income / (expense)	(1,151,244)	(123,040)	1,274,284	-	-
Gross financing and investment income	11,511,823	2,482,476	3,335,914	47,750	17,377,963
Return on customers', banks' and financial institutions' time investments	(177,283)	(150,387)	(137,276)	-	(464,946)
Net financing & investment income	11,334,540	2,332,089	3,198,638	47,750	16,913,017
Fees from banking services, net	1,650,305	289,794	47,388	672,193	2,659,680
Exchange income, net	372,289	109,020	302,585	-	783,894
Other operating income, net	99,409	4	179,830	85,426	364,669
Total operating income	13,456,543	2,730,907	3,728,441	805,369	20,721,260
Depreciation and amortization	(1,046,483)	(41,570)	(22,802)	(7,293)	(1,118,148)
Impairment charge for financing and other financial assets, net	(1,152,042)	(1,014,526)	828	-	(2,165,740)
Other operating expenses	(5,006,796)	(284,449)	(181,974)	(150,534)	(5,623,753)
Total operating expenses	(7,205,321)	(1,340,545)	(203,948)	(157,827)	(8,907,641)
Income before zakat	6,251,222	1,390,362	3,524,493	647,542	11,813,619

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

2021	**(SAR'000) Retail segment**	**Corporate segment**	**Treasury segment**	**Investment services and brokerage segment**	**Total**
Consolidated balance sheet assets	**365,749,349**	**87,081,308**	**102,230,559**	**2,961,252**	**558,022,469**
Commitments and contingencies excluding irrevocable commitments to extend credit	**-**	**13,802,357**	**-**	**-**	**13,802,357**

26. OPERATING SEGMENTS (continued)

	(SAR'000)				
2020	Retail segment	Corporate segment	Treasury segment	Investment services and brokerage segment	Total
Consolidated balance sheet assets	250,683,555	65,028,546	82,467,805	1,613,343	399,793,249
Commitments and contingencies excluding irrevocable commitments to extend credit	-	8,493,389	-	-	8,493,389

27. FINANCIAL RISK MANAGEMENT

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

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

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

27-1 Credit risk

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

a) Credit risk measurement

i) Financing

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

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

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a. Credit risk measurement (continued)
ii) Credit risk grades

For corporate exposures, the Group 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 customer.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates, 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 customer. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring of corporate exposure involves use of the following data.

- Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections.
- Data from credit reference agencies, press articles, changes in external credit ratings
- Actual and expected significant changes in the political, regulatory and technological environment of the customer or in its business activities

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

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

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

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

Bank has a master rating scale in place that comprises of 22 risk rating grades in total which is further split into 19 performing grades and 3 non-performing grades. Each of these 19 performing risk rating grades has a probability of default range assigned to it along with a mid-point PD. The probability of default for performing portfolio ranges from a minimum of 0% up to a maximum of 99% depending on the risk grades. The 12 month probability of default (PD) for on and off-balance sheet financing exposures in grades 1 to 6 and unrated exposures range from 0% to 8%. For 12 month PD for watch list exposures ranges from 8% to 99%, For the 3 non performing grades, the probability of default (PD) assigned is 100%.

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

iii) Generating the term structure of PD (continued)

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

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

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

Risk Rating 4
Good - Typically obligors in the high end of the medium range who are definitely sound with minor risk characteristics. Elements of strength are present in such areas as liquidity, stability of margins, cash flows, diversity of assets, and lack of dependence on one type of business.

Risk Rating 5
Satisfactory - These are obligors with smaller margins of debt service coverage and with some elements of reduced strength. Satisfactory asset quality, liquidity, and good debt capacity and coverage. A loss year or declining earnings trend may occur, but the customers have sufficient strength and financial flexibility to offset these issues.

Risk Rating 6
Adequate - Obligors with declining earnings, strained cash flow, increasing leverage and/ or weakening market fundamentals that indicate above average risk, such customers have limited additional debt capacity, modest coverage, average or below average asset quality and market share. Present customer performance is satisfactory, but could be adversely affected by developing collateral quality/ adequacy etc.

Risk Rating 7
Very high risk - Generally undesirable business constituting an undue and unwarranted credit risk but not to the point of justifying a substandard classification. No loss of principal or profit has taken place. Potential weakness might include a weakening financial condition, an unrealistic repayment program, inadequate sources of funds, or a lack of adequate collateral, credit information or documentation. The entity is undistinguished and mediocre. No new or incremental credits will generally be considered for this category.

Risk Rating 8
Substandard - Obligors in default and 90 Days Past Due on repayment of their obligations. Unacceptable business credit. Normal repayment is in jeopardy, and there exists well defined weakness in support of the same. The asset is inadequately protected by the current net worth and paying capacity of the obligor or pledged collateral. Specific provision raised as an estimate of potential loss.

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

iii) Generating the term structure of PD (continued)

Risk Rating 9
Doubtful - Obligors in default and 180 Days Past Due (DPD) on their contracted obligations, however in the opinion of the management recovery/ salvage value against corporate and real estate obligors is a possibility, and hence write-off should be deferred. Full repayment questionable. Serious problems exist to the point where a partial loss of principle is likely. Weaknesses are so pronounced that on the basis of current information, conditions and values, collection in full is highly improbable. Specific provision raised as an estimate of potential loss. However, for retail obligors (except real estate) and credit cards, total loss is expected. A 100% Specific Provisioning must be triggered followed by the write-off process should be effected as per Al Rajhi Bank write-off policy.

Risk Rating 10
Loss - Obligors in default and 360 Days Past Due (DPD) on their obligations. Total loss is expected. An uncollectible assets which does not warrant classification as an active asset. A 100% Specific Provisioning must be triggered followed by the write-off process should be effected as per Al Rajhi Bank write-off policy.

iv) ECL - Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group 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 Group's historical experience and expert credit assessment and including forward-looking information.

For Corporate portfolio, the Group's assessment of significant increase in credit risk is based on facility level except for watch-list accounts, whereby the Group's assessment is based on counterparty. Significant increase in credit risk assessment for retail financing is carried out at customer level within same product family. All the exposures which are considered to have significantly increased in credit risk are subject to lifetime ECL.

The Group considers all investment grade Sukuk issued by sovereigns including Gulf Corporation Council (GCC) countries to have low credit risk.

v) Determining whether credit risk has increased significantly

In determining whether credit risk has increased significantly since initial recognition, the Group uses its internal credit risk grading system, external risk ratings, quantitative changes in PDs , delinquency status of accounts, expert credit judgement and, where possible, relevant historical experience.

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition based on quantitative assessment and / or using its expert credit judgment and, where possible, relevant historical experience, the Group 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 Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the customer.

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

v) Determining whether credit risk has increased significantly (continued)

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

The Group classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below:

Stage 1: for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Group recognises an allowance based on the 12-month ECL. All accounts at origination would be classified as Stage 1.

Stage 2: for financial instruments where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired, the Group recognises an allowance for the lifetime ECL for all financings categorized in this stage based on the actual / expected behavioral maturity profile including restructuring or rescheduling of facilities.

Stage 3: for credit-impaired financial instruments, the Group recognises the lifetime ECL. Default identification process i.e. DPD of 90 or more is assumed to be stage 3.

vi) Modified financial assets

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

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

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

Forbearance is a qualitative indicator of a significant increase in credit risk, and an expectation of forbearance may constitute evidence that an exposure is credit-impaired/in default. A customer needs to demonstrate consistently good payment behavior over a period of 12 months before the exposure is no longer considered to be credit-impaired/ in default.

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

vii) Definition of 'Default'

The Group considers a financial asset to be in default when:

- the customer is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or
- the customer is past due more than 90 days on any material credit obligation to the Group.

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 customer is in default. the Group 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 Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied for the Group for regulatory purposes.

viii) Incorporation of forward looking information

The Group considers macroeconomic forecasts for next 5 years (consistent with forecasts available from public sources), beyond which the long term average macroeconomic conditions prevail. The forward-looking PD curve would account for the changing expectation of macroeconomic environment over time Externally available macroeconomic forecasts from International Monetary Fund (IMF) and Saudi Central Bank (SAMA) are used for making the base case forecast. For other scenarios (namely upturn and downturn), adjustments are made to base case forecasts based standard deviation of the macroeconomic factors.

The base case represents a most-likely outcome as published by external sources. The other scenarios represent more optimistic and more pessimistic outcomes.

The Group has in place suite of macroeconomic models pertaining to specific portfolios that are used to incorporate the forward-looking information. The Group chose to adopt a macroeconomic regression-based approach to determine the link function between historical default rates (up to 10 years) and prevalent macroeconomic condition. Key factors used across different macroeconomic models being: Change in Oil price, Government net lending and Investments as percentage of GDP, Current Account Balance, Gross National Savings and Government Revenue.

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

ix) Incorporation of forward looking information (continued)

The Group has used below base case near term forecast in its ECL model, which is based on updated information available as at the reporting date:

Economic Indicators	Forecast calendar years used in 2021 ECL model		
	2022	2023	2024
Yearly Growth in Oil Price	-5.9%	-3.8%	-2.1%
General Government Net Lending (% of GDP)	-2.5%	-2.0%	-1.4%
Investment (% of GDP)	28.4%	28.5%	28.3%
Current Account Balance to GDP	1.9%	0.5%	-0.2%
Crude Oil Production Avg Daily (million barrel)	9.8	10	10.1
Gross National Savings to GDP (YoY) Growth	-1.0%	-4.3%	-2.9%
General Government Revenue (% of GDP)	28.9%	28.9%	28.9%

The table below shows the change in economic indicators to the ECL computed under three different scenarios used by the Group:

	Due from Bank and other financial institutions	Investment	Financing	Off Balance Sheet Items	Total
31-Dec-21	SAR '000'				
Most likely (Base case)	4,275	31,824	9,198,154	415,591	9,649,844
More optimistic (Upside)	2,892	21,069	8,314,379	404,118	8,742,458
More pessimistic (Downside)	5,633	42,382	9,984,351	441,607	10,473,973

x) Measurement of ECL

The Group measures an ECL at an individual instrument level taking into account the projected cash flows, PD, LGD, CCF and discount rate.

The key inputs into the measurement of ECL are the term structure of the following variables:

i. probability of default (PD);
ii. loss given default (LGD);
iii. exposure at default (EAD).

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

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

For Corporate and Retail portfolio, bank uses internal LGD models to arrive at the LGD estimates.

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

x) Measurement of ECL (continued)

EAD represents the expected exposure in the event of a default. The Group 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 financing commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. The period of exposure limits the period over which possible defaults are considered and thus affects the determination of PDs and measurement of ECLs (especially for Stage 2 accounts with lifetime ECL).

xi) Credit quality analysis

a) The following table sets out information about the credit quality of financings measured at amortized cost as at 31 December :

2021	***SAR '000'***			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Carrying amount distribution by Grades				
Grade 1-3 / (Aaa - A3)	**10,983,194**	**-**	**-**	**10,983,194**
Grade (4-6) / (Baa1 - B3)	**73,375,643**	**2,358,621**	**-**	**75,734,264**
Grade 7- Watch list / (Caa1 – C)	**-**	**2,850,570**	**-**	**2,850,570**
Non-performing	**-**	**-**	**1,510,003**	**1,510,003**
Total Corporate performing and non-performing	**84,358,837**	**5,209,191**	**1,510,003**	**91,078,031**
Total Retail (un-rated)	**363,935,472**	**4,348,687**	**2,666,621**	**370,950,780**
Total Carrying amount	**448,294,309**	**9,557,878**	**4,176,624**	**462,028,811**

2020	*SAR '000'*			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Carrying amount distribution by Grades				
Grade 1-3 / (Aaa - A3)	10,218,303	-	-	10,218,303
Grade (4-6) / (Baa1 - B3)	50,406,170	3,176,554	-	53,582,724
Grade 7- Watch list / (Caa1 – C)	-	2,666,449	-	2,666,449
Non-performing	-	-	1,690,865	1,690,865
Total Corporate performing and non-performing	60,624,473	5,843,003	1,690,865	68,158,341
Total Retail (un-rated)	250,650,984	2,617,230	1,756,902	255,025,116
Total Carrying amount	311,275,457	8,460,233	3,447,767	323,183,457

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

xii) Financings

a) The net financing concentration risks and the related provision, by major economic sectors at 31 December are as follows:

2021

	(SAR'000)			
Description	**Performing**	**Non-Performing**	**Allowance for impairment**	**Net financing**
Commercial	**32,288,030**	**544,141**	**(427,931)**	**32,404,240**
Industrial	**32,577,200**	**137,392**	**(104,470)**	**32,610,122**
Building and construction	**3,329,919**	**709,105**	**(668,271)**	**3,370,753**
Consumer	**369,450,684**	**1,500,097**	**(1,163,714)**	**369,787,067**
Services	**17,747,557**	**114,092**	**(71,307)**	**17,790,342**
Agriculture and fishing	**474,037**	**133**	**(99)**	**474,071**
Others	**3,151,284**	**5,140**	**(4,211)**	**3,152,213**
Total	**459,018,711**	**3,010,100**	**(2,440,003)**	**459,588,808**
12 month and life time ECL not credit impaired	**-**	**-**	**(6,758,151)**	**(6,758,151)**
Balance	**459,018,711**	**3,010,100**	**(9,198,154)**	**452,830,657**

2020

	(SAR'000)			
Description	Performing	Non-Performing	Allowance for impairment	Net financing
Commercial	20,831,819	654,288	(527,116)	20,958,991
Industrial	27,896,009	229,237	(138,592)	27,986,654
Building and construction	1,396,185	636,587	(604,646)	1,428,126
Consumer	254,270,868	754,249	(642,253)	254,382,864
Services	13,936,713	170,055	(105,083)	14,001,685
Agriculture and fishing	539,561	-	-	539,561
Others	1,867,188	698	(7,122)	1,860,764
Total	320,738,343	2,445,114	(2,024,812)	321,158,645
12 month and life time ECL not credit impaired	-	-	(5,446,544)	(5,446,544)
Balance	320,738,343	2,445,114	(7,471,356)	315,712,101

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

xii) Financings (continued)

b) The table below sets out gross balances of individually impaired financing, together with the fair value of related collateral held by the Group as at 31 December:

2021	**(SAR'000)**		
	Retail	**Corporate**	**Total**
Individually impaired financing	**1,500,097**	**1,510,003**	**3,010,100**
Fair value of collateral	**925,297**	**135,352**	**1,060,649**

2020	(SAR'000)		
	Retail	Corporate	Total
Individually impaired financing	754,249	1,690,865	2,445,114
Fair value of collateral	573,602	453,208	1,026,810

C. The table below stratifies The banks in the ordinary course of financing activities hold collaterals as security to mitigate credit risk in the financings. These collaterals mostly include time, demand, and other cash deposits, financial guarantees, local and international equities, real estate, and other fixed assets. The collaterals are held mainly against commercial and consumer financings and are managed against relevant exposures at their net realizable values. For financial assets that are credit impaired at the reporting year, quantitative information about the collateral held as security is needed to the extent that such collateral mitigates credit risk. The outstanding credit impaired financing facility balances, that are covered by collateral, as of December 31 is as follows:

	(SAR'000)	
	2021	2020
Less than 50%	**26,830**	21,799
51-70%	**107,023**	87,603
More than 70%	**581,717**	328,547
Total exposure	**715,570**	437,949

b) Settlement risk

The Group is also exposed to settlement risk in its dealings with other financial institutions. This risk arises when the Group pays its side of the transaction to the other bank or counterparty before receiving payment from the third party. The risk is that the third party may not pay its obligation. While these exposures are short in duration, they can be significant. The risk is mitigated by dealing with highly rated counterparties, holding collateral and limiting the size of the exposures according to the risk rating of the counterparty.

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

c) Risk limit control and mitigation policies

The responsibility for credit risk management is enterprise-wide in scope. Strong risk management is integrated into daily processes, decision making and strategy setting, thereby making the understanding and management of credit risk the responsibility of every business segment.

The following business units within the Group assist in the credit control process:

- Corporate Credit Unit.
- Credit Administration, Monitoring and Control Unit.
- Remedial Unit.
- Credit Policy Unit.
- Retail Credit Unit.

The monitoring and management of credit risk associated with these financing are made by setting approved credit limits. The Group manages limits and controls concentrations of credit risk wherever they are identified - in particular, to individual customers and groups, and to industries and countries.

Concentrations of credit risks arise when a number of customers are engaged in similar business activities, activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risks indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location. The Group seeks to manage its credit risk exposure through diversification of its financing to ensure there is no undue concentration of risks with to individuals or groups of customers in specific geographical locations or economic sectors.

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

c) Risk limit control and mitigation policies (continued)

The Group manages credit risk by placing limits on the amount of risk accepted in relation to individual customers and groups, and to geographic and economic segments. Such risks are monitored on a regular basis and are subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, economic sector and by country are reviewed at least annually by the executive committee.

Exposure to credit risk is also managed through regular analysis on the ability of customers and potential customers to meet financial and contractual repayment obligations and by revising credit limits where appropriate.

Some other specific control and mitigation measures are outlined below:

c-1) Collateral

The Group implements guidelines on the level and quality of specific classes of collateral, The principal collateral types are:

- Mortgages over residential and commercial properties.
- Cash, shares, and general assets for customer.
- Shares for Murabaha (collateralized share trading) transactions.

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as traditional banking products of the Group.

Documentary and commercial letters of credit - which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying goods to which they relate, and therefore, risk is partially mitigated.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of further financing products, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

d) Impairment and provisioning policies

The table below sets out the maximum exposure to credit risk at the reporting date without considering collateral or other credit enhancements and includes the off-balance sheet financial instruments involving credit risks as at 31 December:

	(SAR'000)	
On-balance sheet items	**2021**	2020
Investments, net:		
Murabaha with Saudi Government and SAMA	**22,611,987**	22,904,021
Sukuk	**51,764,416**	28,406,417
Structured Products	**1,788,765**	2,502,525
Due from banks and other financial institutions	**26,065,392**	28,654,842
Financing, net		
Corporate	**87,081,308**	65,028,546
Retail	**365,749,349**	250,683,555
Other finaincal assets		
Receivables, net	**2,961,252**	1,613,343
Total on-balance sheet items	**558,022,469**	399,793,249
Off-balance sheet items:		
Letters of credit and acceptances	**6,070,781**	3,050,200
Letters of guarantee	**7,731,576**	5,443,189
Irrevocable commitments to extend credit	**11,284,872**	10,662,701
Total off-balance sheet items	**25,087,229**	19,156,090
Maximum exposure to credit risk	**583,109,698**	418,949,339

The exposures set out above are based on net carrying amounts as reported in the consolidated statement of financial position.

27-2 Liquidity risks

Liquidity risk is the risk that the Group will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay deposits and financing parties and fulfill financing commitments. Liquidity risk can be caused by market disruptions or by credit downgrades, which may cause certain sources of funding to become unavailable immediately. Diverse funding sources available to the Group help mitigate this risk. Assets are managed with liquidity in mind, maintaining a conservative balance of cash and cash equivalents.

Liquidity risk management process

The Group's liquidity management process is as monitored by the Group's Asset and Liabilities Committee (ALCO), and includes:

- Day-to-day funding, managed by Treasury to ensure that requirements can be met, and this includes replenishment of funds as they mature or are invested;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements;
- Managing the concentration and profile of debt maturities;
- Maintaining diversified funding sources; and
- Liquidity management and asset and liability mismatching.

Monitoring and reporting take the form of analyzing cash flows of items with both contractual and non-contractual maturities. The net cash flows are measured to ensure that they are within acceptable ranges. The Treasury / ALCO also monitors the level and type of undrawn financing commitments, usage of overdraft facilities and the potential impact of contingent liabilities such as standby letters of credit and guarantees may have on the Group's liquidity position.

27. FINANCIAL RISK MANAGEMENT (continued)

27-2 Liquidity risks (continued)

The tables below summarizes the maturity profile of the Group's assets and liabilities, on the basis of the remaining maturity as of the consolidated statement of financial position date to the contractual maturity date.

Management monitors the maturity profile to ensure that adequate liquidity is maintained. Assets available to meet liabilities and to cover outstanding financing commitments include cash, balances with SAMA and due from banks. Further, in accordance with the Banking Control Law and Regulations issued by SAMA, the Group maintains a statutory deposit equal to a sum not less than 7% of total customers' deposits, and 4% of total other customers' accounts. In addition to the statutory deposit, the Group maintains a liquid reserve of not less than 20% of the deposit liabilities, in the form of cash, gold or assets which can be converted into cash within a period not exceeding 30 days. Also, the Group has the ability to raise additional funds through special financing arrangements with SAMA including deferred sales transactions.

The contractual maturities of financial assets and liabilities as of 31 December based on discounted cash flows are as follows. The table below reflects the expected cash flows indicated by the deposit retention history of the Group. Management monitors a rolling forecast of the Group's liquidity position and cash and cash equivalents on the basis of expected cash flows. This is carried out in accordance with practice and limits set by the Group and based on the pattern of historical deposit movements. In addition, the Group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

2021	**(SAR'000)**					
	Less than 3 months	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**No Fixed Maturity**	**Total**
Assets						
Cash and balance with SAMA and other central banks	**5,799,920**	**-**	**-**	**-**	**34,563,529**	**40,363,449**
Due from banks and other financial institutions	**10,680,328**	**8,531,326**	**4,797,197**	**-**	**2,056,541**	**26,065,392**
Financing, net						
Mutajara	**18,781,527**	**19,227,767**	**20,892,884**	**6,810,429**	**-**	**65,712,607**
Installment sale	**16,206,795**	**38,917,960**	**161,495,958**	**150,379,014**	**-**	**366,999,727**
Murabaha	**1,104,177**	**2,409,123**	**6,384,504**	**6,702,086**	**-**	**16,599,890**
Credit cards	**1,452,961**	**881,980**	**1,172,832**	**10,660**	**-**	**3,518,433**
Investments, net						
Investment in an associate	**-**	**-**	**-**	**-**	**295,253**	**295,253**
Investments held at amortized cost	**-**	**1,459,651**	**32,470,004**	**36,168,616**	**-**	**70,098,271**
FVSI investments	**-**	**-**	**1,706,145**	**2,828,141**	**2,650,605**	**7,184,891**
FVOCI investments	**488,205**	**-**	**259,039**	**785,367**	**5,322,369**	**6,854,980**
Other assets, net	**-**	**-**	**-**	**-**	**19,979,022**	**19,979,022**
Total	**54,513,913**	**71,427,807**	**229,178,563**	**203,684,313**	**64,867,319**	**623,671,915**
Liabilities						
Due to banks and other financial institutions	**7,805,606**	**2,698,866**	**5,698,537**	**-**	**1,749,131**	**17,952,140**
Demand deposits	**-**	**-**	**-**	**-**	**374,725,352**	**374,725,352**
Customers' time investments	**72,910,255**	**53,893,319**	**3,469,487**	**20,000**	**-**	**130,293,061**
Other customer accounts	**1,854,045**	**2,354,454**	**2,845,301**	**-**	**-**	**7,053,800**
Other liabilities	**-**	**-**	**-**	**-**	**26,338,711**	**26,338,711**
Total Liabilities	**82,569,906**	**58,946,639**	**12,013,325**	**20,000**	**402,813,194**	**556,363,064**
Gap	**(28,055,993)**	**12,481,168**	**217,165,238**	**203,664,313**	**(337,945,875)**	**67,308,851**

27. FINANCIAL RISK MANAGEMENT (continued)

27-2 Liquidity risks (continued)

2020	(SAR'000)					
	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	No Fixed Maturity	Total
Assets						
Cash and balance with SAMA and other central banks	16,235,549	-	-	-	31,126,973	47,362,522
Due from banks and other financial institutions	8,924,380	6,519,752	11,951,076	-	1,259,634	28,654,842
Financing, net						
Mutajara	14,385,991	9,205,279	11,161,268	2,478,796	-	37,231,334
Installment sale	14,550,254	31,842,841	115,670,114	93,416,307	-	255,479,516
Murabaha	1,233,638	2,760,214	4,281,018	11,395,223	-	19,670,093
Credit cards	1,409,529	823,202	1,096,299	2,128	-	3,331,158
Investments, net						
Investment in an associate	-	-	-	-	239,179	239,179
Investments held at amortized cost	488,781	-	18,408,177	30,220,553	-	49,117,511
FVSI investments	-	-	1,502,525	2,588,595	2,545,864	6,636,984
FVOCI investments	103,743	48,043	75,495	377,051	3,687,266	4,291,598
Other assets, net	-	-	-	-	16,809,986	16,809,986
Total	57,331,865	51,199,331	164,145,972	140,478,653	55,668,902	468,824,723
Liabilities						
Due to banks and other financial institutions	1,208,109	5,459,613	3,648,051	-	448,288	10,764,061
Demand deposits	-	-	-	-	332,918,203	332,918,203
Customers' time investments	29,729,360	13,278,009	9,913	-	-	43,017,282
Other customer accounts	-	-	-	-	6,695,518	6,695,518
Other liabilities	-	-	-	-	17,311,141	17,311,141
Total	30,937,469	18,737,622	3,657,964	-	357,373,150	410,706,205
Gap	26,394,396	32,461,709	160,488,008	140,478,653	(301,704,248)	58,118,518

The following tables disclose the maturity of contractual financial liabilities on undiscounted cash flows as at 31 December:

2021	**(SAR'000)**					
	Less than 3 months	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Due to banks and other financial institutions	**9,554,737**	**2,698,866**	**5,698,537**	**-**	**-**	**17,952,140**
Customer deposits	**74,764,300**	**56,247,773**	**6,314,788**	**20,000**	**374,725,352**	**512,072,213**
Other liabilities	**-**	**-**	**-**	**-**	**26,338,711**	**26,338,711**
Total	**84,319,037**	**58,946,639**	**12,013,325**	**20,000**	**401,064,063**	**556,363,064**

The cumulative maturities of commitments and contingencies are given in note 16-c-1 of the consolidated financial statements.

27. FINANCIAL RISK MANAGEMENT (continued)

27-2 Liquidity risks (continued)

2020	(SAR'000)					
	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Due to banks and other financial institutions	1,208,109	5,459,613	3,648,051	-	448,288	10,764,061
Customers' deposits	29,729,360	13,278,009	9,913	-	339,613,721	382,631,003
Other liabilities	-	-	-	-	17,311,141	17,311,141
Total	30,937,469	18,737,622	3,657,964	-	357,373,150	410,706,205

The cumulative maturities of commitments and contingencies are given in note 16-c-1 of the consolidated financial statements.

27-3 Market risks

The Group is exposed to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risks arise on profit rate products, foreign currency and mutual fund products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as profit rates, foreign exchange rates and quoted market prices.

Market risk exposures are monitored by Treasury / Credit & Risk department and reported to ALCO on a monthly basis. ALCO deliberates on the risks taken and ensures that they are appropriate.

a. Market risks - speculative operations

The Group is not exposed to market risks from speculative operations. The Group is committed to Sharia guidelines which do not permit it to enter into contracts or speculative instruments such as hedging, options, forward contracts and derivatives.

b. Market risks - banking operations

- **Profit rate risk**

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

Profit rate risk arises from the possibility that the changes in profit rates will affect either the fair values or the future cash flows of the financial instruments. The Board has established profit rate gap limits for stipulated periods. The Group monitors positions daily and uses gap management strategies to ensure maintenance of positions within the established gap limits.

27. FINANCIAL RISK MANAGEMENT (continued)

27-3 Market risks (continued)

b. Market risks - banking operations (continued)

- **Profit rate risk (continued)**

The following table depicts the sensitivity to a reasonably possible change in profit rates, with other variables held constant, on the Group's consolidated statement of income or shareholders' equity. The sensitivity of the income is the effect of the assumed changes in profit rates on the net income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at 31 December 2021 and 2020. All the banking book exposures are monitored and analyzed in currency concentrations, and relevant sensitivities are disclosed in SAR million.

2021		**SAR in Million**			
Currency	**Increase in basis points**	**Sensitivity of gross financing and investment income**			
		As at 31 December	Average	Maximum	Minimum
SAR	**+25**	**325**	**306**	**325**	**283**

Currency	**Decrease in basis points**	**Sensitivity of gross financing and investment income**			
		As at 31 December	Average	Maximum	Minimum
SAR	**-25**	**(325)**	**(306)**	**(325)**	**(283)**

2020		SAR in Million			
Currency	Increase in basis points	Sensitivity of gross financing and investment income			
		As at 31 December	Average	Maximum	Minimum
SAR	+25	255	244	255	229

Currency	Decrease in basis points	Sensitivity of gross financing and investment income			
		As at 31 December	Average	Maximum	Minimum
SAR	-25	(255)	(244)	(255)	(229)

Profit rate movements affect reported consolidated shareholders 'equity through retained earnings, i.e. increases or decreases in financing and investment income.

Commission sensitivity of assets, liabilities and off balance sheet items:

The Group manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market profit rates on its financial position and cash flows.

The Board sets limits on the level of mismatch of profit rate repricing that may be undertaken, which is monitored daily by Bank Treasury.

The table below summarizes the Group's exposure to profit rate risks. Included in the table are the Group's financial instruments at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

The Group is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

27. FINANCIAL RISK MANAGEMENT (continued)
27-3 Market risks (continued)
b. Market risks - banking operations (continued)
- **Profit rate risk (continued)**

Commission sensitivity of assets, liabilities and off balance sheet items (continued)

2021

	(SAR'000)						
	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Non Commission Sensitive	Total
Assets							
Cash and balance with SAMA and other central banks	5,799,758	-	-	-	-	34,563,691	40,363,449
Due from banks and other financial institutions	11,531,741	4,606,477	3,379,876	4,490,757	-	2,056,541	26,065,392
Investments, net							
Investment in an associate	-	-	-	-	-	295,253	295,253
Investments held at amortized cost	25,855,000	3,216,475	-	7,749,046	33,277,750	-	70,098,271
FVSI investments	600,000	1,131,760	-	788,765	2,013,761	2,650,605	7,184,891
FVOCI investments	488,205	-	-	259,039	785,367	5,322,369	6,854,980
Financing, net							
Mutajara	28,281,674	23,307,071	5,877,092	6,409,798	1,836,972	-	65,712,607
Installment sale	36,467,842	23,238,717	40,756,516	145,219,264	121,317,388	-	366,999,727
Murabaha	6,438,635	7,919,605	338,633	183,487	1,719,530	-	16,599,890
Credit cards	1,452,873	294,023	588,045	1,172,832	10,660	-	3,518,433
Other assets	-	-	-	-	-	19,979,022	19,979,022
Total Assets	116,915,728	63,714,128	50,940,162	166,272,988	160,961,428	64,867,481	623,671,915
Liabilities							
Due to banks and other financial institutions	6,217,633	2,664,761	527,693	6,792,922	-	1,749,131	17,952,140
Customer deposits	-	-	-	-	-	374,725,352	374,725,352
Customers' time investments	72,900,341	27,547,100	26,337,227	3,488,168	20,225	-	130,293,061
Other customer accounts	-	-	-	-	-	7,053,800	7,053,800
Other liabilities	-	-	-	-	-	26,338,711	26,338,711
Total liabilities	79,117,974	30,211,861	26,864,920	10,281,090	20,225	409,866,994	556,363,064
Shareholders' equity	-	-	-	-	-	67,308,851	67,308,851
Gap	37,797,754	33,502,267	24,075,242	155,991,898	160,941,203	(412,308,364)	-
Profit Rate Sensitivity – On consolidated statement of financial position	37,797,754	33,502,267	24,075,242	155,991,898	160,941,203	(412,308,364)	-
Profit Rate Sensitivity - Off consolidated statement of financial Position	90,684	96,174	248,178	41,380	7,065	-	483,481
Total Profit Rate Sensitivity Gap	37,888,438	33,598,441	24,323,420	156,033,278	160,948,268	(412,308,364)	483,481
Cumulative Profit Rate Sensitivity Gap	37,888,438	71,486,878	95,810,299	251,843,576	412,791,845	(483,481)	-

27. FINANCIAL RISK MANAGEMENT (continued)
27-3 Market risks (continued)
b. Market risks - banking operations (continued)
- **Profit rate risk (continued)**

Commission sensitivity of assets, liabilities and off balance sheet items (continued)

2020 (SAR'000)

	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Non Commission Sensitive	Total
Assets							
Cash and balance with SAMA and other central banks	16,235,549	-	-	-	-	31,126,973	47,362,522
Due from banks and other financial institutions	10,131,068	2,902,451	2,410,613	11,951,076	-	1,259,634	28,654,842
Investments, net							
Investment in an associate	-	-	-	-	-	239,179	239,179
Investments held at amortized cost	22,355,265	2,005,632	-	15,545,908	9,210,706	-	49,117,511
Investments held as FVSI	-	2,588,595	-	1,502,525	-	2,545,864	6,636,984
FVOCI investments	-	604,332	-	-	-	3,687,266	4,291,598
Financing, net							
Mutajara	16,174,148	11,265,923	3,283,366	5,343,271	1,164,626	-	37,231,334
Installment sale	21,730,136	13,139,501	22,689,661	117,297,161	80,623,057	-	255,479,516
Murabaha	10,302,648	8,213,185	35,286	282,279	836,695	-	19,670,093
Credit cards	1,409,504	274,410	548,817	1,096,299	2,128	-	3,331,158
Other assets	-	-	-	-	-	16,809,986	16,809,986
Total Assets	98,338,318	40,994,029	28,967,743	153,018,519	91,837,212	55,668,902	468,824,723
Liabilities							
Due to banks and other financial institutions	2,027,236	4,891,925	649,025	2,747,587	-	448,288	10,764,061
Customer deposits	-	-	-	-	-	332,918,203	332,918,203
Customers' time investments	29,729,361	9,015,881	4,262,127	9,913	-	-	43,017,282
Other customer accounts	-	-	-	-	-	6,695,518	6,695,518
Other liabilities	-	-	-	-	-	17,311,141	17,311,141
Total liabilities	31,756,597	13,907,806	4,911,152	2,757,500	-	357,373,150	410,706,205
Shareholders' equity	-	-	-	-	-	58,118,518	58,118,518
Gap	66,581,721	27,086,223	24,056,591	150,261,019	91,837,212	(359,822,766)	-
Profit Rate Sensitivity - On Consolidated Statement of Financial Positions	66,581,721	27,086,223	24,056,591	150,261,019	91,837,212	(359,822,766)	-
Profit Rate Sensitivity - Off Consolidated Statement of Financial Positions	86,891	136,217	134,359	33,212	934	-	391,613
Total Profit Rate Sensitivity Gap	66,668,612	27,222,440	24,190,950	150,294,231	91,838,146	(359,822,766)	391,613
Cumulative Profit Rate Sensitivity Gap	66,668,612	93,891,052	118,082,002	268,376,233	360,214,379	391,613	-

27. FINANCIAL RISK MANAGEMENT (continued)

27-3 Market risks (continued)

b. Market risks - banking operations (continued)

- **Foreign currency risks**

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Group management has set limits on positions by currencies, which are regularly monitored to ensure that positions are maintained within the limits.

The table below shows the currencies to which the Group has a significant exposure as at 31 December 2021 and 2020, on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonably possible movements of the currency rate against SAR, with all other variables held constant, on the consolidated statement of income (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity. A positive effect shows a potential increase in the consolidated statement of income or consolidated shareholders' equity, whereas a negative effect shows a potential net reduction in the consolidated statement of income or consolidated statement of changes in shareholders' equity.

(SAR in '000)

Currency Exposures As at 31 December 2021	**Change in Currency Rate in %**	**Effect on Net Income**	**Effect on Equity**
UAE Dirham	**+/-2**	**1,306**	**1,306**
US Dollar	**+/-2**	**41,005**	**41,005**
Malaysian Ringgit	**+/-5**	**45,630**	**45,630**
Jordanian Dinar	**+/-5**	**25,874**	**25,874**
Kuwaiti Dinar	**+/-5**	**19,502**	**19,502**

(SAR in '000)

Currency Exposures As at 31 December 2020	Change in Currency Rate in %	Effect on Net Income	Effect on Equity
UAE Dirham	+/-2	1,601	1,601
US Dollar	+/-2	177,857	177,857
Malaysian Ringgit	+/-5	48,380	48,380
Jordanian Dinar	+/-5	23,408	23,408
Kuwaiti Dinar	+/-5	(589)	(589)

27. FINANCIAL RISK MANAGEMENT (continued)

27-3 Market risks (continued)

b. Market risks - banking operations (continued)

- **Foreign currency risks (continued)**

Currency position

The Group manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. At the end of the year, the Group had the following significant net exposures denominated in foreign currencies:

	SAR '000	
	2021 Long/(short)	2020 Long/(short)
US Dollar	**2,050,261**	8,892,870
Jordanian Dinar	**517,473**	468,162
Kuwaiti Dinar	**390,037**	(11,786)
UAE Dirham	**65,276**	80,027
Malaysian Ringgit	**912,599**	967,597
Others	**267,293**	255,438
Total	**4,202,939**	10,652,308

c. Price risk

The Group has certain investments which are carried at fair value through the income statement (FVSI) and fair value through other comprehensive income (FVOCI). Price risk arises due to changes in these investments.

As these investments are in a limited number of funds and are not significant to the total investment portfolio, the Group monitors them periodically and determines the risk of holding them based on changes in market prices.

Other investments have little or no risks as these are bought for immediate sales. Investments are made only with a confirmed sale order, and therefore involve minimal risk.

- **Equity Price Risk**

Equity risk refers to the risk of decrease in fair values of equities in the Group's non-trading investment portfolio as a result of reasonably possible changes in levels of equity indices and the value of individual stocks.

The effect on the Group's equity investments held as FVOCI due to reasonably possible changes in equity indices, with all other variables held constant, as at 31 December is as follows:

	2021		2020	
Local Market Indices	**Change in Equity price %**	**Effect in SAR Million**	Change in Equity price %	Effect in SAR Million
Equity investments	**+ /- 10**	**+/- 532,237**	+ /- 10	+/- 368,727

27. FINANCIAL RISK MANAGEMENT (continued)

27-3 Market risks (continued)

d. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems, and external events.

Operational risk is inherent in most of the Group's activities. This necessitates an integrated approach to the identification, measurement and monitoring of operational risk.

An Operational Risk Management Unit (ORMU) has been established within the Credit and Risk Management Group, which facilitates the management of Operational Risk within the Group. ORMU facilitates the management of Operational Risk by setting policies, developing systems, tools and methodologies, overseeing their implementation and use within the business units and providing ongoing monitoring and guidance across the Group.

The three primary operational risk management processes in the Group are Risk Control Self Assessment, Operational Loss Database and eventual implementation of Key Risk Indicators which are designed to function in a mutually reinforcing manner.

28. GEOGRAPHICAL CONCENTRATION

a) The distribution by the geographical region of the major categories of assets, liabilities, commitments, contingencies and credit exposure accounts as of 31 December is as follows:

2021	(SAR'000)					
	Kingdom of Saudi Arabia	Other GCC and Middle East	North America	South East Asia	Other Countries	Total
Assets						
Cash and balances with SAMA and other central banks	39,842,383	86,663	368,698	17,579	48,126	40,363,449
Due from banks and other financial institutions	7,586,983	15,604,674	758,132	1,517,932	597,671	26,065,392
Financing, net						
Mutajara	64,370,413	1,342,194	-	-	-	65,712,607
Installment sale	362,227,916	3,568,681	-	1,203,130	-	366,999,727
Murabaha	12,111,030	302,171	-	4,186,689	-	16,599,890
Credit cards	3,511,798	6,518	-	117	-	3,518,433
Investments, net						
Investment in an associate	295,253	-	-	-	-	295,253
Investments held at amortized cost	64,687,914	4,809,311	-	601,046	-	70,098,271
FVSI Investments	6,896,121	-	-	-	288,770	7,184,891
FVOCI investments	5,128,039	20,908	-	1,706,033	-	6,854,980
Total assets	566,657,850	25,741,120	1,126,830	9,232,526	934,567	603,692,893
Liabilities						
Due to banks and other financial institutions	14,916,740	862,015	1,157,182	1,016,203	-	17,952,140
Customer deposits	499,872,716	5,712,243	-	6,487,254	-	512,072,213
Total liabilities	514,789,456	6,574,258	1,157,182	7,503,457	-	530,024,353
Commitments and contingencies	16,601,812	1,758,776	8,115	2,480,106	4,238,420	25,087,229
Credit exposure (stated at credit equivalent value)	8,926,470	-	-	2,358,402	-	11,284,872

28. GEOGRAPHICAL CONCENTRATION (continued)

2020	(SAR'000)					
	Kingdom of Saudi Arabia	Other GCC and Middle East	North America	South East Asia	Other Countries	Total
Assets						
Cash and balances with SAMA and other central banks	47,297,397	48,505	-	16,620	-	47,362,522
Due from banks and other financial institutions	10,606,664	16,518,568	157,458	997,102	375,050	28,654,842
Financing, net						
Mutajara	36,440,691	790,643	-	-	-	37,231,334
Installment sale	250,835,125	3,381,628	-	1,262,763	-	255,479,516
Murabaha	15,343,304	2,381,816	-	1,944,973	-	19,670,093
Credit cards	3,324,953	6,058	-	147	-	3,331,158
Investments, net						
Investment in an associate	239,179	-	-	-	-	239,179
Investments held at amortized cost	48,265,117	175,723	-	676,671	-	49,117,511
FVSI Investments	6,636,984	-	-	-	-	6,636,984
FVOCI investments	3,580,187	21,309	-	690,102	-	4,291,598
Total assets	422,569,601	23,324,250	157,458	5,588,378	375,050	452,014,737
Liabilities						
Due to banks and other financial institutions	10,049,256	20,448	435,859	258,498	-	10,764,061
Customer deposits	365,253,514	8,578,469	452	8,769,155	29,413	382,631,003
Total Liabilities	375,302,770	8,598,917	436,311	9,027,653	29,413	393,395,064
Commitments and contingencies	13,585,335	1,161,669	16,508	3,773,101	619,477	19,156,090
Credit exposure (stated at credit equivalent value)	8,336,590	-	-	2,326,111	-	10,662,701

28. GEOGRAPHICAL CONCENTRATION (continued)

b) The distributions by geographical concentration of non-performing financing and allowance for impairment of financing are as follows:

2021	**(SAR'000)**			
	Kingdom of Saudi Arabia	**GCC and Middle East**	**South East of Asia**	**Total**
Non-performing				
Mutajara	**1,415,129**	**53,884**	**-**	**1,469,013**
Installment sale	**1,431,779**	**35,603**	**13,488**	**1,480,870**
Murabaha	**-**	**-**	**36,520**	**36,520**
Credit cards	**23,697**	**-**	**-**	**23,697**
Allowance for impairment of financing				
Mutajara	**(3,922,922)**	**(36,834)**	**-**	**(3,959,756)**
Installment sale	**(4,870,326)**	**(72,677)**	**(35,510)**	**(4,978,513)**
Murabaha	**-**	**-**	**(61,718)**	**(61,718)**
Credit cards	**(198,102)**	**(65)**	**-**	**(198,167)**

2020	(SAR'000)			
	Kingdom of Saudi Arabia	GCC and Middle East	South East of Asia	Total
Non-performing				
Mutajara	1,647,513	5,423	-	1,652,936
Installment sale	690,942	25,559	11,900	728,401
Murabaha	-	-	37,929	37,929
Credit cards	25,848	-	-	25,848
Allowance for impairment of financing				
Mutajara	(2,983,324)	(12,570)	-	(2,995,894)
Installment sale	(4,289,808)	(62,293)	(46,822)	(4,398,923)
Murabaha	(55,734)	-	-	(55,734)
Credit cards	(20,805)	-	-	(20,805)

Refer to Note 7-1a for performing financing.

29. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Determination of fair value and fair value hierarchy

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

Level 1: quoted prices in active markets for the same instrument (i.e. without modification or additions).

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

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

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

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

29. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

Carrying amounts and fair value:

The following table shows the carrying amounts and fair values of financial assets and financial liabilities as at 31 December, including their levels in the fair value hierarchy (refer note 2d (ii)). It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	(SAR'000)				
2021	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets					
Financial assets measured at fair value					
FVSI Investments – Mutual funds	2,650,605	-	2,415,228	235,377	2,650,605
FVOCI equity investments	5,322,369	5,298,010	-	24,359	5,322,369
FVSI Sukuk	3,745,521	-	3,745,521	-	3,745,521
FVOCI Sukuk	1,532,611	-	1,532,611	-	1,532,611
Structure Products	788,765	-	-	788,765	788,765
Derivative financial instruments	208,582	-	208,582	-	208,582
Financial assets not measured at fair value					
Due from banks and other financial institutions	26,065,392	-	-	26,181,679	26,181,679
Investments held at amortized cost					
- Murabaha with Saudi Government and SAMA	22,611,987	-	22,900,999	-	22,900,999
- Sukuk	46,518,108		46,717,099	-	46,717,099
- Structured Products	1,000,000	-	-	1,038,043	1,038,043
Gross Financing	462,028,811	-	-	478,238,097	478,238,097
Total	572,472,751	5,298,010	77,520,040	506,506,320	589,324,370
Financial liabilities					
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	17,952,140	-	-	18,198,581	18,198,581
Customers' deposits	512,072,213	-	-	511,991,640	511,991,640
Total	530,024,353	-	-	530,190,221	530,190,221

29. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

Carrying amounts and fair value (continued):

2020	(SAR'000)				
Financial assets	Carrying value	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
FVSI Investments – Mutual funds	2,545,864	-	2,291,749	254,115	2,545,864
FVOCI equity investments	3,687,266	3,662,877	-	24,389	3,687,266
FVSI Sukuk	2,588,595	-	2,588,595	-	2,588,595
FVOCI Sukuk	604,332	-	604,332	-	604,332
Structure Products	1,502,525	-	-	1,502,525	1,502,525
Derivative financial instruments	32,611	-	32,611	-	32,611
Financial assets not measured at fair value					
Due from banks and other financial institutions	28,654,842	-	-	29,128,159	29,128,159
Investments held at amortized cost					
- Murabaha with Saudi Government and SAMA	22,904,021	-	23,226,882	-	23,226,882
- Sukuk	25,240,452		26,155,715	-	26,155,715
- Structured Products	1,000,000	-	-	1,048,310	1,048,310
Gross Financing	323,183,457	-	-	331,028,641	331,028,641
Total	411,943,965	3,662,877	54,899,884	362,986,139	421,548,900
Financial liabilities					
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	10,764,061	-	-	10,909,221	10,909,221
Customers' deposits	382,631,003	-	-	382,641,604	382,641,604
Total	393,395,064	-	-	393,550,825	393,550,825

FVSI investments classified as level 2 include mutual funds, the fair value of which is determined based on the latest reported net assets value (NAV) as at the date of statement of consolidated financial position.

The level 3 financial assets measured at fair value represent investments recorded at cost. The carrying value of these investments approximates fair value.

Gross financing classified as level 3 has been valued using expected cash flows discounted at relevant current effective profit rate. Investments held at amortized cost, due to / from banks and other financial institutions have been valued using the actual cash flows discounted at relevant SIBOR/ SAMA murabaha rates.

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

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

30. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Group transacts business with related parties. The related party transactions are governed by limits set by the Banking Control Law and the regulations issued by SAMA. The nature and balances resulting from such transactions as at and for the year ended 31 December are as follows:

	(SAR'000)	
Related parties	**2021**	2020
Members of the Board of Directors		
Mutajara	**172,442**	59,321
Current accounts	**376,377**	242,323
Companies and establishments guaranteed by members of the Board of Directors		
Mutajara	**12,127,165**	10,222,874
Contingent liabilities (*)	**4,664,225**	3,664,052
Associate		
Contributions payable	**116,038**	321,512
Receivable against claims	**332,173**	169,437
Bank balances	**253,332**	188,276

(*) = off balance sheet items.

Income and expenses pertaining to transactions with related parties included in the consolidated financial statements for the years ended 31 December are as follows:

	(SAR'000)	
	2021	2020
Income from financing and other financial assets	**40,275**	32,141
Mudaraba Fees	**85,394**	72,689
Employees' salaries and benefits (air tickets)	**1,061**	795
Rent and premises related expenses	**2,119**	5,522
Contribution – policies written	**709,180**	721,077
Claims incurred and notified during the period	**661,300**	440,395
Claims paid	**498,565**	465,270
Board of Directors' remunerations	**5,948**	6,009

The amounts of compensations recorded in favor of or paid to the Board of Directors and the executive management personnel during the years ended 31 December are as follows:

	(SAR'000)	
	2021	2020
Short-term benefits	**104,038**	107,097
Provision for employees' end of service benefits	**3,679**	3,406

The executive management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

31. MUDARABA FUNDS

Mudaraba funds comprise the following as at 31 December:

	(SAR'000)	
	2021	2020
Customers' Mudaraba and investments	**37,458,437**	29,216,806
Total	**37,458,437**	29,216,806

Mudaraba and investments accounts represents customers' investment portfolio managed by Al Rajhi Capital Company and are considered as off balance sheet. Consistent with the accounting policies of the Group, such balances are not included in the consolidated financial statements as these are held by the Group in a fiduciary capacity.

32. SPECIAL COMMISSIONS EXCLUDED FROM THE CONSOLIDATED STATEMENT OF INCOME

The following represents the movements in charities account, which is included in other liabilities (see note 13) for the year ended 31 December:

	(SAR'000)	
	2021	2020
Balance at beginning of the year	**8,885**	10,994
Additions during the year	**36,616**	11,745
Payments made during the year	**(15,730)**	(13,854)
Balance at end of the year	**29,771**	8,885

33. INVESTMENT MANAGEMENT SERVICES

The Group offers investment services to its customers. The Group has established a number of Mudaraba funds in different investment aspects. These funds are managed by the Group's Investment Department, and a portion of the funds is also invested in participation with the Group. The Group also offers investment management services to its customers through its subsidiary, which include management of funds with total assets under management of SAR 58,255 million (2020: SAR 50,220 million). The mutual funds are not controlled by the Group and neither are under significant influence to be considered as associates / subsidiaries. Mutual funds' financial statements are not included in the consolidated financial statements of the Group. The Group's share of investments in these funds is included under investments, and is disclosed under related party transactions. Funds invested by the Group in those investment funds amounted to SAR 683,351 million at 31 December 2021 (2020: SAR 1,166 million).

34. CAPITAL ADEQUACY

The Group'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 to hold and maintain ratio of total regulatory capital to the risk-weighted assets at or above the Basel prescribed minimum.

SAMA through its Circular Number 391000029731 dated 15 Rabi Al-Awwal 1439H (3 December 2017), which relates to the interim approach and transitional arrangements for the accounting provisions under IFRS 9, has directed banks that the initial impact on the capital adequacy ratio as a result of applying IFRS 9 shall be transitioned over five years.

As part of SAMA guidance on Accounting and Regulatory Treatment of COVID-19 Extraordinary Support Measures, Banks are now allowed to add-back up to 100% of the transitional adjustment amount to Common Equity

34. CAPITAL ADEQUACY (continued)

Tier 1 (CET1) for the full two years' period comprising 2020 and 2021 effective from 31 March 2020 financial statement reporting. The add-back amount must be then phased-out on a straight-line basis over the subsequent 3 years.

Starting June 2021, the Group has opted to apply SAMA allowance to recognize 100% of IFRS9 transitional adjustment amount in the bank's Common Equity Tier 1 (CET 1) which resulted in an increase of SAR 2,883 million as of December 2021.

The Group monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Bank's eligible capital with its consolidated statement of financial position, commitments and contingencies, to reflect their relative risk as of 31 December:

	(SAR'000)	
	2021	2020
Credit risk weighted assets	**385,415,205**	280,373,990
Operational risk weighted assets	**37,798,847**	33,318,660
Market risk weighted assets	**2,414,738**	9,316,353
Total Pillar I - risk weighted assets	**425,628,790**	323,009,003

	(SAR'000)	
	2021	2020
Tier I – capital	**70,191,539**	58,118,518
Tier II capital	**4,817,690**	3,504,675
Total tier I & II capital	**75,009,229**	61,623,193
Capital Adequacy Ratio %		
Tier I ratio	**16.49%**	17.99%
Tier I and II ratio	**17.62%**	19.08%

35. SHARIAH COMPLIANT DERIVATIVES

The table below summarises the positive and negative fair values of Shariah compliant derivatives, together with the notional amounts. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the period-end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Group's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor market risk.
In the ordinary course of business, the Group utilises the following derivative financial instruments for both trading and hedging purposes:

a) Profit rate swaps

Profit rate swaps are commitments to exchange one set of cash flows for another. For profit rate swaps, counterparties generally exchange fixed and floating rate profit payments in a single currency without exchanging principal. For cross-currency profit rate swaps, principal, fixed and floating profit payments 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 customized contracts transacted in the over-the-counter markets. Foreign currency and profit rate futures are transacted in standardized amounts on regulated exchanges and changes in futures contract values are settled daily.

35. SHARIAH COMPLIANT DERIVATIVES (continued)

C) FX Swaps

FX swaps are agreements between two parties to exchange a given amount of one currency for an amount of another currency based on the current spot rate and forward rates quoted in the interbank market. The two parties will then settle their respective foreign exchange notional amounts governed by the previously agreed specific forward rate, The forward rate locks in the exchange rate at which the funds will be exchanged in the future.

Derivative financial instruments 31 December 2021	**Positive fair value**	**Negative fair value**	**Notional amount Total**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**
				Notional amounts by term to maturity			
			(SAR'000)				
Held for trading:							
Profit rate swaps	**179,694**	**(150,455)**	**17,305,197**	**-**	**7,034,837**	**4,218,159**	**6,052,201**
Foreign exchange forward contracts	**12,224**	**(11,853)**	**227,966**	**170,101**	**57,865**	**-**	**-**
FX Swaps	**16,664**	**(5,327)**	**7,443,526**	**7,443,526**	**-**	**-**	**-**
Total	**208,582**	**(167,635)**	**24,976,689**	**7,613,627**	**7,092,702**	**4,218,159**	**6,052,201**

Derivative financial instruments 31 December 2020	Positive fair value	Negative fair value	Notional amount Total	Within 3 months	3-12 months	1-5 years	Over 5 years
				Notional amounts by term to maturity			
			(SAR'000)				
Held for trading:							
Profit rate swaps	30,460	(22,157)	9,127,752	-	-	5,438,733	3,689,019
Foreign exchange forward contracts	2,151	(1,889)	1,353,546	786,539	567,007	-	-
FX Swaps	-	-	-	-	-	-	-
Total	32,611	(24,046)	10,481,298	786,539	567,007	5,438,733	3,689,019

36. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The International Accounting Standard Board (IASB) has issued following accounting standards, amendments, which were effective from accounting years on or after January 1, 2022. The Group has opted not to early adopt these pronouncements and they do not have a significant impact on the consolidated financial statements of the Group.

- Amendment to IFRS 16, 'Leases' – COVID-19 related rent concessions Extension of the practical expedient
  As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. In May 2020, the IASB published an amendment to IFRS 16 that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. On 31 March 2021, the IASB published an additional amendment to extend the date of the practical expedient from 30 June 2021 to 30 June 2022. Lessees can select to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.
  Effective date of the change: Accounting years beginning on or after 1 April 2021.

- A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16:

  Amendments to IFRS 3, 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.

  Amendments to IAS 16, 'Property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in statement of income.

  Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be loss-making.

  Annual improvements make minor amendments to IFRS 1, 'First-time Adoption of IFRS', IFRS 9, 'Financial instruments', IAS 41, 'Agriculture' and the Illustrative Examples accompanying IFRS 16, 'Leases'.
  Effective date of the change: Accounting years beginning on or after 1 January 2022.

- Amendments to IAS 1, Presentation of financial statements', on classification of liabilities:

  These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability.

  Effective date of the change: Accounting years beginning on or after 1 January 2023.

- Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8:

  The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.
  Annual periods beginning on or after 1 January 2023. However, the IASB plans to publish an exposure draft in the fourth quarter of 2021 proposing the deferral of the effective date to no earlier than 1 January 2024.
  Effective date of the change: Accounting years beginning on or after 1 January 2023. However, the IASB plans to publish an exposure draft in the fourth quarter of 2021 proposing the deferral of the effective date to no earlier than 1 January 2024.

- Amendment to IAS 12- deferred tax related to assets and liabilities arising from a single transaction:
  These amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductable temporary differences.
  Effective date of the change: Accounting years beginning on or after 1 January 2023.

36. STANDARDS ISSUED BUT NOT YET EFFECTIVE (Continued)

- IFRS 17, 'Insurance contracts', as amended in June 2020:
  This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.
  Effective date of the change: Accounting years beginning on or after 1 January 2023.

- A narrow-scope amendment to the transition requirements in IFRS 17 Insurance Contracts:

  The amendment relates to insurers' transition to the new Standard only—it does not affect any other requirements in IFRS 17.

  IFRS 17 and IFRS 9 Financial Instruments have different transition requirements. For some insurers, these differences can cause temporary accounting mismatches between financial assets and insurance contract liabilities in the comparative information they present in their financial statements when applying IFRS 17 and IFRS 9 for the first time.

  The amendment will help insurers to avoid these temporary accounting mismatches and, therefore, will improve the usefulness of comparative information for investors. It does this by providing insurers with an option for the presentation of comparative information about financial assets.
  Effective date of the change: Accounting years beginning on or after 1 January 2023.

37. ZAKAT

The Group is subject to Zakat in accordance with the regulations of the Zakat, Tax and Customs Authority ("ZATCA"). Zakat expense is charged to the consolidated statement of income. Zakat is not accounted for as income tax, and as such no deferred tax is calculated relating to zakat.

a) Provisions for Zakat and Income tax for the years ended December 31 is summarized as follows:

	(SAR'000)	
	2021	2020
Beginning balance for Zakat Provision	**3,812,601**	4,627,204
Provided during the year	**1,698,579**	1,218,071
Payments made during the year	**(2,086,251)**	(2,032,674)
Provisions for Zakat and Income tax	**3,424,929**	3,812,601

b) The Group has filed the required Zakat returns with the ZATCA which are due on April 30 each year. The Group's Zakat calculations and corresponding accruals and payments for Zakat are based on the ownership of the Bank to each of its subsidiaries.

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

The Group has provided for Zakat for the year ended December 31, 2021 and 2020 on the basis of the Group's understanding of these rules.

38. SUBSEQUENT EVENTS

- On 8 December 2021, the Group entered into a sale and purchase agreement with the shareholders of Ejada Systems Limited Company ("Ejada") pursuant to which the Group will full acquire the Ejada subject to certain conditions which will be either satisfied or waived in accordance with terms of the agreement. On 16 January 2022, the Group announced that it obtained SAMA's and General Authority for Competition on the acquisition. The Group has not exercised control on Ejada as of 31 December 2021.

- On 23 Jan 2022, the Group issued 6500 Perpetual Sukuk Certificates (Sukuk) of SR 1 million each, and payable quarterly in arrears. The Group has a call option which can be exercised on or after 1 Jan 2027 as per the terms mentioned in the related offering circular. The expected profit distribution on the Sukuk is the base rate for three months in addition to a profit margin of 3.50 %.

- On 16 Rajab 1443 H (corresponding to 17th of February 2022), the bank's Board of Directors recommended to the Extraordinary General Assembly to increase the bank's capital from SAR 25,000 million to SAR 40,000 million by granting bonus shares (3 shares for every 5 shares owned). The paid-up capital increase of SAR 15,000 million will be capitalized from retained earnings. The proposed grant is subject to obtaining necessary approvals from official authorities and Extraordinary General Assembly on the capital increase and number of granted shares.

39. IMPACT OF COVID-19 ON EXPEXTED CREDIT LOSSES ("ECL") AND SAMA PROGRAMS

The Coronavirus ("COVID-19") pandemic continues to disrupt global markets as many geographies are experiencing issues due to identification of multiple new variants of this infections. despite having previously controlled the outbreak through aggressive precautionary measures. The Government of the Kingdom of Saudi Arabia, however, managed to successfully control the outbreak to date.

The Group continues to evaluate the current macroeconomic situation including the impact of the pandemic and resultant government and SAMA support measures, such as repayment holidays and other mitigating packages, have had on the financing portfolio along with conducting review of credit exposure concentrations at a more granular level with particular focus on specific economic sectors, regions, counterparties and collateral protection and taking appropriate customer credit rating actions and initiating restructuring of financing, where required. The Group has also made updates within its ECL model to refine the application of the staging criteria due to SICR on affected customers to be able to differentiate and reflect appropriately in its models.

During the period ended December 31, 2021, the Group has revised the scenario probabilities used for the determination of ECL. In 2020, the Group made certain adjustments to the macroeconomic factors and scenario weightings used in the ECL to the extent that certain effects cannot be fully incorporated into the ECL model calculations at this point in time, management continues to exercise expert credit judgement to estimate ECL by considering reasonable and supportable information not already included in the quantitative models, the Group has therefore recognized overlays of SAR 486 million for corporate as at 31 December 2021.

As with any forecasts, the projections and likelihoods of occurrence are underpinned by significant judgement and uncertainty and therefore, the actual outcomes may be different to those projected. The impact of such uncertain economic environment is judgmental and the Group will continue to reassess its position and the related impact on a regular basis.

39. IMPACT OF COVID-19 AND SAMA PROGRAMS (Continued)

SAMA support programs and initiatives

Private Sector Financing Support Program ("PSFSP")

In response to COVID-19, SAMA launched the Private Sector Financing Support Program ("PSFSP") in March 2020 to provide the necessary support to eligible (Stage 1 and Stage 2) Micro Small and Medium Enterprises ("MSME") as defined by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H. As part of the deferred payments program launched by SAMA in March 2020 and with further extensions to the program till March 2022 announced subsequently, the Group deferred payments and extended maturities on financing facilities to all eligible MSMEs as follows:

Support Programs	Instalment deferred (SAR 'billion)	Cost of deferral (SAR 'million)
April 2020 – September 2020	**3.1**	**89.2**
October 2020 – December 2020	**1,9**	**26.7**
January 2021 – March 2021	**3,2**	**49.6**
April 2021 – June 2021	**3,5**	**186.4**
July 2021 – September 2021	**0.7**	**46.2**
October 2021 – December 2021	**1,0**	**57.7**
January 2022 – March 2022	**1,1**	**44.2**

The payment reliefs were considered as short-term liquidity support to address customer' potential cash flow shortages. Since July 2021 this support only applied to those MSMEs that were still affected by the COVID-19 precautionary measures in line with guidance issued by SAMA in this regard.

The accounting impact of the above changes in terms of the credit facilities were assessed and treated as per the requirements of IFRS 9 as modification in terms of arrangement.

The Group continues to believe that in the absence of other factors, participation in the deferment program on its own, is not considered a significant increase in credit risk for assessment of ECL on its MSME portfolio. The Group has performed as assessment with respect to SICR for the customers still under DPP program as at December 31, 2021 and recorded an additional overlay of SAR 228 million during the period as a result of the potential impact of stage movement.

In order to compensate the related cost that the Group has incurred under SAMA and other public authorities program, the Group has received, during years ended 31 December 2021 and 2020, multiple profit free deposits from SAMA. The outstanding balance of such deposits is SAR 7.6 billion and SAR 3.6 billion as of 31 December 2021 and 31 December 2020 respectively, with varying maturities, which qualify as government grants.

Management determined based on communication from SAMA that the government grant primarily relates to compensation for the modification loss incurred on the deferral of payments. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. Management has exercised certain judgements in the recognition and measurement of this grant income. During the year ended 31 December 2021, total amount of SAR 334.5 million (31 December 2020: SAR 165.5 million) had been recognized in the statement of income with respect to related deposits with an aggregate of SAR 22.8 million deferred grant income as at 31 December 2021 (31 December 2020: SAR 159.1 million).

40. APPROVAL OF THE BOARD OF DIRECTORS

The consolidated financial statements were approved by the Board of Directors on 13 Rajab 1443H (corresponding to 14 February 2022).

مصرف الراجحي
Al Rajhi Bank

AL RAJHI BANKING AND INVESTMENT CORPORATION
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020
TOGETHER WITH THE INDEPENDENT AUDITORS' REPORT

KPMG Al Fozan & Partners
Certified Public Accountants

Building a better working world

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Al Rajhi Banking and Investment Corporation (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

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

KPMG Al Fozan & Partners
Certified Public Accountants

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

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

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Expected credit loss allowance against financing As at 31 December 2020, the Group's gross financing amounted to SAR 323,183.5 million (2019: SAR 256,702.4 million), against which an expected credit loss ("ECL") allowance of SAR 7,471.3 million (2019: SAR 7,019.6 million) was recorded. We considered this as a key audit matter, as the determination of ECL involves significant management judgement, and this has a material impact on the consolidated financial statements of the Group. Moreover, the COVID-19 pandemic has resulted in heightened uncertainty regarding the economic outlook in particular, and hence has increased the levels of judgment needed to determine the ECL under the requirements of *IFRS 9 – Financial Instruments* ("IFRS 9"). The key areas of judgment include: 1. Categorisation of financing into Stages 1, 2 and 3 based on the identification of: (a) exposures that have a significant increase in credit risk ("SICR") since their origination; and (b) individually impaired / defaulted exposures. In accordance with the requirements of IFRS 9, the Group measures ECL based on the credit losses expected to arise over the next twelve months ('12 month ECL'), unless there has been a significant increase in credit risk since origination or default, in which case, the allowance is based on the ECL expected to arise over the life of the financing ('Lifetime ECL'). The Group has applied judgments to identify and estimate the likelihood of borrowers experiencing SICR, notwithstanding the government support programs that resulted in repayment deferrals to certain segments of counterparties. The repayment deferrals were not deemed to have triggered SICR by themselves in isolation of other factors.	• We obtained and updated our understanding of management's assessment of the ECL allowance in respect of financing, including the Group's internal rating model, accounting policy and methodology, as well as any key changes made in light of the COVID-19 pandemic. • We compared the Group's accounting policy and methodology for ECL allowance with the requirements of IFRS 9. • We assessed the design and implementation, and tested the operating effectiveness of the key controls (including relevant IT general and application controls) in relation to: o the ECL model (including governance over the model, its validation, approval of key assumptions and post model overlays, if any); o the classification of borrowers into various stages and timely identification of SICR, and the determination of default / individually impaired exposures; o the IT systems and applications underpinning the ECL model; and o the data inputs into the ECL model. • For a sample of customers, we assessed: o the internal ratings determined by management based on the Group's internal models and considered these assigned ratings in light of external market conditions and available industry information, in particular with reference to the impacts of the COVID-19 pandemic, and also assessed that these were consistent with the ratings used as inputs in the ECL model; o the staging as identified by management; and o management's computations for ECL.

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

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

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Expected credit loss allowance against financing (continued)	
2. Assumptions used in the ECL model for determining probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"), including but not limited to assessment of the financial condition of counterparties, expected future cash flows and developing and incorporating forward looking assumptions, macroeconomic factors and the associated scenarios and expected probabilities. 3. The need to apply post model overlays using expert credit judgment to reflect all relevant risk factors that might not be captured by the ECL model. The application of these judgments, particularly in light of the global pandemic, have given rise to greater estimation uncertainty around ECL and therefore affected the associated audit risk thereon as at 31 December 2020. *Refer to the summary of significant accounting policy note 3d)5) for the impairment of financial assets; note 2d)i) which contains the disclosure of critical accounting judements, estimates and assumptions relating to impairment losses on financial assets and the impairment assessment methodology used by the Group; note 7-2 which contains the disclosure of impairment against financing; note 27-1a) for details of credit quality analysis and key assumptions and factors considered in determination of ECL; and note 38 for impact of the COVID-19 pandemic on ECL.*	• We assessed the appropriateness of the Group's criteria for the determination of SICR and default and the identification of individually impaired exposures; and their classification into stages. Further, for a sample of exposures, we assessed the appropriateness of the corresponding staging classification, including customers who were eligible for deferral of instalments under government support programs (with specific focus on customers operating in sectors most affected by the COVID-19 pandemic). • We assessed the governance process established by the Group and the qualitative factors considered by the Group when applying any overlays or making any adjustments to the output from the ECL model, due to data or model limitations or otherwise. • We assessed the reasonableness of the underlying assumptions used by the Group in the ECL model, including forward looking assumptions, keeping in view the uncertainty and volatility in economic scenarios due to the COVID 19 pandemic. • We tested the completeness and accuracy of data underpinning the ECL calculations as at 31 December 2020. • Where relevant, we involved our specialists, including IT specialists, to assist us in reviewing ECL model calculations, evaluating inputs and assessing the reasonableness of assumptions used, particularly around macroeconomic variables, macroeconomic scenarios and probability weights. • We assessed the adequacy of related disclosures in the consolidated financial statements.

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

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

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
SAMA support program and related government grants	
In response to COVID-19 pandemic, the Saudi Central Bank ("SAMA") launched a number of initiatives, including the liquidity support programme for banks and the Private Sector Financing Support Program ("PSFSP"). The PSFSP was launched in March 2020 to provide the necessary support to the Micro, Small and Medium Enterprises ("MSMEs"). The PSFSP included the deferred payments program, whereby the Bank deferred the instalments payable by MSMEs falling due during the period from 14 March 2020 to 31 March 2021. In order to compensate the Bank with respect to the losses incurred in connection with the PSFSP and the liquidity support programme, the Bank has received profit free deposits of varying maturities amounting in aggregate to SAR 8.85 billion. The difference between the fair value of such deposits at initial recognition, determined using market rates of deposits of similar value and tenor, and their face value has been considered as a government grant and accounted for in accordance with International Accounting Standard 20: *Government Grants* ("IAS 20"). We considered the accounting for the deposits received under the SAMA support programme as a key audit matter because: 1. these deposits represent significant events and material transactions that occurred during the year, and thereby required significant auditors' attention; and 2. the recognition and measurement of government grants have involved significant management judgment, including but not limited to: (a) determining the appropriate discount rate to be used; and (b) identifying the objective of each individual deposit to determine the timing of recognition of the associated grant. *Refer to the significant accounting policy note 3a to the consolidated financial statements relating to government grant accounting; and note 38 which contains the disclosure of SAMA support programmes and details of the government grants received over the year from SAMA.*	We obtained an understanding of the various programmes and initiatives taken by SAMA during the year ended 31 December 2020 in response to COVID-19, and assessed the objectives of the deposits received by the Group in relation thereto to assess the appropriateness of the application of IAS 20 (and recogntion of government grant) by the Group. We checked the accuracy of the government grants computation (including discount rates used) and assessed the appropriateness of the timing of recognition of the goverment grants by the Group. We assessed the appropriateness of related disclosures in the consolidated financial statements.

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

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

Other Information included in the Group's 2020 Annual Report

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

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended 31 December 2020 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Based on the information that has been made available to us, nothing has come to our attention that causes us to believe that the Group was not in compliance, in all material respects, with the applicable requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-Laws, in so far as they affect the preparation and presentation of the consolidated financial statements for the year ended 31 December 2020.

KPMG Al Fozan & Partners
Certified Public Accountants
P. O. Box 92876
Riyadh 11663
Kingdom of Saudi Arabia

Dr. Abdullah Hamad Al Fozan
Certified Public Accountant
License no. 348

Ernst & Young

P. O. Box 2732
Riyadh 11461
Kingdom of Saudi Arabia

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

29 Jumada Thani 1442H
(11 February 2021)

AL RAJHI BANKING AND INVESTMENT CORPORATION
(A SAUDI JOINT STOCK COMPANY)

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

	Notes	2020 (SAR'000)	2019 (SAR'000)
ASSETS			
Cash and balances with SAMA and other central banks	4	**47,362,522**	39,294,099
Due from banks and other financial institutions, net	5	**28,654,842**	32,058,182
Investments, net	6	**60,285,272**	46,842,630
Financing, net	7	**315,712,101**	249,682,805
Property and equipment, net	8	**10,234,785**	10,407,247
Investment properties, net	9	**1,541,211**	1,383,849
Other assets, net	10	**5,033,990**	4,417,764
TOTAL ASSETS		**468,824,723**	384,086,576
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	11	**10,764,061**	2,219,604
Customers' deposits	12	**382,631,003**	312,405,823
Other liabilities	13	**17,311,141**	18,269,492
Total liabilities		**410,706,205**	332,894,919
Shareholders' equity			
Share capital	14	**25,000,000**	25,000,000
Statutory reserve	15	**25,000,000**	21,789,632
Other reserves	15	**(134,728)**	(216,041)
Retained earnings		**8,253,246**	868,066
Proposed gross dividends	23	**-**	3,750,000
Total shareholders' equity		**58,118,518**	51,191,657
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**468,824,723**	384,086,576

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

Chairman | Chief Executive Officer | Chief Financial Officer

1

AL RAJHI BANKING AND INVESTMENT CORPORATION
(A SAUDI JOINT STOCK COMPANY)

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

		(SAR'000)	
	Notes	2020	2019
INCOME			
Gross financing and investment income	17	**17,377,963**	16,962,583
Return on customers', banks' and financial institutions' time investments	17	**(464,946)**	(534,860)
Net financing and investment income	17	**16,913,017**	16,427,723
Fee from banking services, net	18	**2,659,680**	1,987,367
Exchange income, net		**783,894**	774,096
Other operating income, net	19	**364,669**	295,278
Total operating income		**20,721,260**	19,484,464
EXPENSES			
Salaries and employees' related benefits	20	**2,977,344**	2,794,046
Depreciation and amortization	8&9	**1,118,148**	1,059,582
Other general and administrative expenses	21	**2,646,409**	2,532,213
Operating expenses before credit impairment charge		**6,741,901**	6,385,841
Impairment charge for financing and other financial assets, net	7	**2,165,740**	1,772,265
Total operating expenses		**8,907,641**	8,158,106
Income for the year before Zakat		**11,813,619**	11,326,358
Zakat for the year	37	**(1,218,071)**	(1,167,831)
NET INCOME FOR THE YEAR		**10,595,548**	10,158,527
Basic and diluted earnings per share (in SAR)	22	**4.24**	4.06

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

Chairman Chief Executive Officer Chief Financial Officer

2

AL RAJHI BANKING AND INVESTMENT CORPORATION
(A SAUDI JOINT STOCK COMPANY)

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

		(SAR'000)	
	Notes	**2020**	2019
Net income for the year		**10,595,548**	10,158,527
Other comprehensive income			
Items that cannot be reclassified to consolidated statement of income in subsequent periods			
Net change in fair value of equity investments held at fair value through other comprehensive income ("FVOCI Investments")	15	**254,222**	178,773
Re-measurement of employees' end of service benefits liabilities ("ESOB")	15 & 25	**(179,605)**	(51,630)
Items that can be reclassified to consolidated statement of income in subsequent periods			
Exchange difference on translating foreign operations	15	**6,696**	6,371
Total comprehensive income for the year		**10,676,861**	10,292,041

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

Chairman | Chief Executive Officer | Chief Financial Officer

3

AL RAJHI BANKING AND INVESTMENT CORPORATION
(A SAUDI JOINT STOCK COMPANY)

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

	Notes	Share capital (SAR'000)	Statutory reserve (SAR'000)	Other reserves (SAR'000)	Retained earnings (SAR'000)	Proposed gross dividends (SAR'000)	Total (SAR'000)
Balance at 31 December 2019		25,000,000	21,789,632	(216,041)	868,066	3,750,000	51,191,657
Net income for the year		-	-	-	10,595,548	-	10,595,548
Net change in fair value of FVOCI investments	15	-	-	254,222	-	-	254,222
Exchange difference on translation foreign operations	15	-	-	6,696	-	-	6,696
Re-measurement of employee EOSB liabilities	15 & 25	-	-	(179,605)	-	-	(179,605)
Net other comprehensive income recognized directly in shareholders' equity		-	-	81,313	-	-	81,313
Total comprehensive income for the year		-	-	81,313	10,595,548	-	10,676,861
Transfer to statutory reserve		-	3,210,368	-	(3,210,368)	-	-
Dividend for the second half 2019	23	-	-	-	-	(3,750,000)	(3,750,000)
Balance at 31 December 2020		**25,000,000**	**25,000,000**	**(134,728)**	**8,253,246**	**-**	**58,118,518**

	Notes	Share capital (SAR'000)	Statutory reserve (SAR'000)	Other reserves (SAR'000)	Retained earnings (SAR'000)	Proposed gross dividends (SAR'000)	Total (SAR'000)
Restated balance at 31 December 2018		16,250,000	16,250,000	(349,555)	12,499,171	3,656,250	48,305,866
Net income for the year		-	-	-	10,158,527	-	10,158,527
Net change in fair value of FVOCI investments	15	-	-	178,773	-	-	178,773
Exchange difference on translation foreign operations	15	-	-	6,371	-	-	6,371
Re-measurement of employee EOSB liabilities	15 & 25	-	-	(51,630)	-	-	(51,630)
Net other comprehensive income recognized directly in shareholders' equity		-	-	133,514	-	-	133,514
Total comprehensive income for the year		-	-	133,514	10,158,527	-	10,292,041
Transfer to statutory reserve		-	5,539,632	-	(5,539,632)	-	-
Bonus shares issued	14	8,750,000	-	-	(8,750,000)	-	-
Dividend for the second half 2018		-	-	-	-	(3,656,250)	(3,656,250)
Interim dividends for the first half of 2019	23	-	-	-	(3,750,000)	-	(3,750,000)
Proposed final dividends for 2019	23	-	-	-	(3,750,000)	3,750,000	-
Balance at 31 December 2019		25,000,000	21,789,632	(216,041)	868,066	3,750,000	51,191,657

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

Chairman | Chief Executive Officer | Chief Financial Officer

AL RAJHI BANKING AND INVESTMENT CORPORATION
(A SAUDI JOINT STOCK COMPANY)

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

		(SAR'000)	
	Notes	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before Zakat		**11,813,619**	11,326,358
Adjustments to reconcile net income to net cash from/ (used in) operating activities:			
Gain on investments held at fair value through statement of income (FVSI)	19	**(33,441)**	(21,617)
Depreciation and amortization	8	**1,080,171**	1,059,582
Depreciation on investment properties	9	**37,977**	17,221
(Gain) on sale of property and equipment, net	19	**(10,256)**	(568)
Impairment charge for financing and other financial assets, net	7	**2,165,740**	1,772,265
Share in profit of an associate	19	**(42,944)**	(23,481)
(Increase) / decrease in operating assets			
Statutory deposit with SAMA and other central banks		**(2,796,037)**	(1,219,309)
Due from banks and other financial institutions		**9,846,917**	(3,174,273)
Financing		**(68,195,037)**	(19,696,863)
FVSI investments		**(4,615,776)**	25,685
Other assets, net		**(609,530)**	(804,605)
Increase/ (decrease) in operating liabilities			
Due to banks and other financial institutions		**8,544,457**	(5,070,020)
Customers' deposits		**70,225,180**	18,496,698
Other liabilities		**(958,351)**	4,388,757
Zakat paid		**(2,032,674)**	(2,889,286)
Net cash generated from operating activities		**24,420,015**	4,186,544
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	8	**(945,686)**	(1,527,133)
Purchase of investment property		**-**	(103,480)
Purchase of FVOCI investments		**(2,528,010)**	(1,638,587)
Proceeds from disposal of FVOCI investments		**163,231**	1,148,963
Proceeds from maturities of investments held at amortized cost		**23,898,760**	91,458,865
Purchase of investments held at amortized cost		**(29,500,087)**	(94,524,237)
Net cash used in investing activities		**(8,911,792)**	(5,185,609)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	23	**(3,750,000)**	(7,406,250)
Payment against lease obligation		**(42,261)**	(269,789)
Net cash used in financing activities		**(3,792,261)**	(7,676,039)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**11,715,962**	(8,675,104)
Cash and cash equivalents at the beginning of the year		**21,111,399**	29,786,503
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	24	**32,827,361**	21,111,399
Gross financing and investment income received during the year		**17,579,469**	16,693,465
Return on customers', banks' and financial institutions' time investments paid during the year		**(147,912)**	(282,046)
		17,431,557	16,411,419
Non-cash transactions:			
Net change in fair value of FVOCI equity investments		**254,222**	178,773

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

Chairman	Chief Executive Officer	Chief Financial Officer

1. GENERAL

a) Incorporation and operation

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

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

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

The objectives of the Bank are to carry out banking and investment activities in accordance with its Articles of Association and By-Laws, the Banking Control Law and the Council of Ministers' Resolution referred to above. The Bank is engaged in banking and investment activities inside and outside the Kingdom of Saudi Arabia through 591 branches (2019: 572) including the branches outside the Kingdom and 13,716 employees (2019: 13,439 employees). The Bank has established certain subsidiary companies (together with the Bank hereinafter referred to as "the Group") in which it owns all or majority of their shares as set out below (Also see note 3(b)):

Name of subsidiaries	Shareholding %		
	2020	2019	
Al Rajhi Development Company - KSA	**100%**	100%	A limited liability company registered in the Kingdom of Saudi Arabia to support the mortgage programs of the Bank through transferring and holding the title deeds of real estate properties under its name on behalf of the Bank, collection of revenue of certain properties sold by the Bank, provide real estate and engineering consulting services, provide documentation service to register the real estate properties and overseeing the evaluation of real estate properties.
Al Rajhi Corporation Limited – Malaysia	**100%**	100%	A licensed Islamic Bank under the Islamic Financial Services Act 2013, incorporated and domiciled in Malaysia.

1. GENERAL (continued)

a) Incorporation and operation (continued)

Name of subsidiaries	Shareholding %		
	2020	2019	
Al Rajhi Capital Company – KSA	**100%**	100%	A Saudi Closed Joint Stock Company authorized by the Capital Market Authority to carry on securities business in the activities of Dealing/brokerage, Managing assets, advising, Arranging, and Custody.
Al Rajhi Bank – Kuwait	**100%**	100%	A foreign branch registered with the Central Bank of Kuwait.
Al Rajhi Bank – Jordan	**100%**	100%	A foreign branch operating in Hashemite Kingdom of Jordan, providing all financial, banking, and investments services and importing and trading in precious metals and stones in accordance with Islamic Sharia'a rules and under the applicable banking law.
Al Rajhi Takaful Agency Company – KSA	**99%**	99%	A limited liability company registered in the Kingdom of Saudi Arabia to act as an agent for insurance brokerage activities per the agency agreement with Al Rajhi Cooperative Insurance Company.
Al Rajhi Company for management services – KSA	**100%**	100%	A limited liability company registered in the Kingdom of Saudi Arabia to provide recruitment services.
Emkan Finance Company – KSA	**100%**	100%	A closed joint stock company registered in the Kingdom of Saudi Arabia providing micro consumer financing, finance lease and small and medium business financing.
Tawtheeq company – KSA	**100%**	-	A closed joint stock company registered in Kingdom of Saudi Arabia providing financial leasing contracts registration to organize contracts data and streamline litigation processes.
Al Rajhi Financial Markets Ltd	**100%**	-	A Limited Liability Company registered in the Cayman Islands with the objective of managing certain

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

b) Shari'a Authority

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

AL RAJHI BANKING AND INVESTMENT CORPORATION
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEARS ENDED 31 DECEMBER 2020 AND 2019

2. BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements of the Group have been prepared
- in accordance with 'International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA") and
- in compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and by-laws of the Bank

b) Basis of measurement and preparation

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

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

c) Functional and presentation currency

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

d) Critical accounting judgments, estimates and assumptions

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

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

2. BASIS OF PREPARATION (continued)

d) Critical accounting judgments, estimates and assumptions (continued)

i) Impairment losses on financial assets

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

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

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

ii) Fair value of financial instruments

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

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

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

The principal or the most advantageous market must be accessible to the Group.

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

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

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

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

2. BASIS OF PREPARATION (continued)

d) Critical accounting judgments, estimates and assumptions (continued)

ii) Fair value of financial instruments (continued)

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

- Level 2 — Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

iii) Determination of control over investees

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

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

iv) Provisions for liabilities and charges

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

v) Going concern

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

AL RAJHI BANKING AND INVESTMENT CORPORATION
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEARS ENDED 31 DECEMBER 2020 AND 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Change in accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2019 except for the effect of government grant and derivatives financial instruments accounting policies mentioned below.

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

Derivative financial instruments
Derivative financial instruments include foreign exchange forward contracts and profit rate swaps. These derivatives financial instruments are initially recognised at fair value on the date on which the derivative contract is entered into. These instruments 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.

In the ordinary course of business, the Bank utilises the following derivative financial instruments for trading purposes:

a) Profit rate swaps
Swaps are commitments to exchange one set of cash flows for another. For profit rate swaps, counterparties exchange fixed and floating profit rate payments in a single currency without exchanging principal.

b) Foreign exchange forwards
Forwards are contractual agreements to either buy or sell a specified currency at a specified price and date in the future. Forwards are customised contracts transacted in the over-the-counter markets. Foreign currencies are transacted in standardised amounts on regulated exchanges and changes in futures contract values are settled daily.

Held for trading purposes
Most of the Bank's derivative trading activities relate to sales and positioning. Sales activities involve offering products to customers and banks 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.

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to the interim condensed consolidated statement of income and disclosed in foreign exchange income for foreign exchange forward contracts and in other income for profit rate swap contracts.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Change in accounting policies (continued)

IBOR Transition (Profit Rate Benchmark Reforms):

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

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

Phase (2) – The second phase relates to the replacement of benchmark rates (IBOR) with alternative risk-free rates (RFR). The Phase 2 amendments are effective for annual periods beginning on or after 1 January 2021 and early application is permitted. Now that the Phase 2 Amendments have been finalised, the Bank will complete its assessment of the accounting implications of the scenarios it expects to encounter as the transition from IBORs to RFRs in order to accelerate its programmes to implement the new requirements. The Phase 2 Amendments introduce new areas of judgement, the Bank needs to ensure it has appropriate accounting policies and governance in place. For the additional disclosures, the Bank will have to assess and implement required updates in the financial reporting systems and processes to gather and present the information required.

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

The table below shows the Bank's exposure at the year-end to significant IBORs subject to reform that have yet to transition to RFRs. The table excludes exposures to IBOR that will expire before transition is required.

In SAR 000 **31 December 2020**	**Non-derivative financial assets - carrying value**	**Non-derivative financial liabilities carrying value**	**Derivatives Nominal amount1**
SAIBOR SAR (1 month)	47,000	-	11,009
SAIBOR SAR (3 months)	25,025,000	-	76,131
SAIBOR SAR (6 months)	25,610,000	-	1,528,100
SAIBOR SAR (12 months)	500,000	-	-
LIBOR USD (1 months)	24,000	-	23,019
LIBOR USD (3 months)	3,246,250	-	563,250
LIBOR USD (6 months)	7,160,000	-	6,926,443
LIBOR USD (12 months)	-	-	-
Total	**61,612,250**		**9,127,752**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis of consolidation

These consolidated financial statements comprise the financial statements of the Group. The financial statements of subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies.

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

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Investment in an associate

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

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

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

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

d) Financial instruments

1) Classification of financial assets

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

Financial assets at amortised cost

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

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

Financial Asset at FVOCI

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Financial instruments (continued)

1) Classification of financial assets (continued)

Financial Asset at FVSI
All other financial assets are classified as measured at FVSI.

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

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

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

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

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Financial instruments (continued)

1) Classification of financial assets (continued)

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

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

Reclassification

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

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

The Group classifies its Principal financing and Investment as follows:

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

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

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

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

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

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

2) Classification of financial liabilities

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

All amounts due to banks and other financial institutions and customer deposits are initially recognized at fair value less transaction costs.
Subsequently, financial liabilities are measured at amortized cost, unless they are required to be measured at fair value through profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Financial instruments (continued)

3) Derecognition

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

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

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

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

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

4) Modifications of financial assets and financial liabilities

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Financial instruments (continued)

5) Impairment

Impairment of financial assets

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

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

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

No impairment loss is recognized on equity investments.

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

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition

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

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

Measurement of ECL

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Financial instruments (continued)

5) Impairment (continued)

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

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Financial instruments (continued)

5) Impairment (continued)

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

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

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

Write-off

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

Collateral valuation

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

To the extent possible, the Group uses active market data for valuing financial assets held as collateral. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, or based on housing price indices.

Collateral repossessed

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

6) Financial guarantees and financing commitments

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Financial instruments (continued)

6) Financial guarantees and financing commitments (continued)

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

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

7) Foreign Currencies

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

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

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

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

e) Trade date

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

f) Offsetting financial instruments

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Revenue recognition

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

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

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

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

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

Fees received for asset management, wealth Management, financial planning, custody services and other similar services that are provided over an extended period of time, are recognized over the period when the service is being provided i.e. related performance obligation is satisfied . Asset management fees related to investment funds are recognized over the period the service is being provided. The same principle applies to Wealth management and Custody Services that are continuously recognized over a period of time.

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

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

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

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

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

The Group has concluded that revenue from rendering of various services related to payment service system, share trading services, remittance business, SADAD and Mudaraba (i.e. subscription, management and performance fees), should be recognized at the point when services are rendered i.e. when performance obligation is satisfied.

h) Other real estate

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Investment properties

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

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

j) Property and equipment

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

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

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

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

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

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

k) Customers' deposits

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

l) Provisions

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

m) Cash and cash equivalents

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

n) Short-term employee benefits

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Special commission excluded from the consolidated statement of income

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

p) Provisions for employees' end of service benefits

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

q) Share-based payments

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

r) Mudaraba funds

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

s) Investment management services

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

t) Bank's products definition

The Bank provides its customers with banking products based on interest avoidance concept and in accordance with Shari'a regulations. The following is a description of some of the financing products:

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

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

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

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

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

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4. CASH AND BALANCES WITH SAMA AND OTHER CENTRAL BANKS

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

	(SAR'000)	
	2020	2019
Cash in hand	**7,355,940**	7,404,276
Statutory deposits	**23,459,540**	20,663,503
Current account with SAMA	**311,493**	371,320
Mutajara with SAMA	**16,235,549**	10,855,000
Total	**47,362,522**	39,294,099

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

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

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

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

	(SAR'000)	
	2020	2019
Current accounts	**1,259,634**	798,168
Mutajara	**27,395,208**	31,260,014
Total	**28,654,842**	32,058,182

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

	(SAR'000)	
	2020	2019
Investment grade (credit rating AAA to BBB)	**28,013,793**	31,601,630
Non-investment grade (credit rating BB+ to B-)	**492,593**	241,353
Unrated	**148,456**	215,199
Total	**28,654,842**	32,058,182

The credit quality of due from banks and other financial institutions is managed using external credit rating agencies. The above due from banks and other financial institutions balances are neither past due nor impaired classified in stage 1.

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6. INVESTMENTS, NET

a) Investments comprise the following as of 31 December:

	(SAR'000)	
	2020	2019
Investment in an associate	**239,179**	196,235
Investments held at amortized cost		
Murabaha with Saudi Government and SAMA	**22,904,021**	24,991,978
Sukuk	**25,240,452**	17,973,379
Structured Products	**1,000,000**	-
Less: Impairment (Stage 1)	**(26,962)**	(22,270)
Total investments held at amortized cost	**49,117,511**	42,943,087
Investments held as FVSI		
Mutual funds	**2,545,864**	1,230,711
Structured Products	**1,502,525**	-
Sukuk	**2,588,595**	800,000
Total investments held as FVSI	**6,636,984**	2,030,711
FVOCI investments		
Equity investments	**3,687,266**	1,672,597
Sukuk	**604,332**	-
Total FVOCI investments	**4,291,598**	1,672,597
Investments	**60,285,272**	46,842,630

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

All investments held at amortized cost are neither past due nor impaired as of 31 December 2020 & 2019.

Equity investment securities designated as at FVOCI
The Bank has designated investment in equity securities designated at FVOCI. The FVOCI designation was made because the investments are expected to be held for the long-term for strategic purposes.

None of the strategic investments were disposed of during 2020, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

Investment in an associate
The Bank owns 22.5% (31 December 2019: 22.5%) shares of Al Rajhi Company for Cooperative Insurance, a Saudi Joint Stock Company.

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

2020		(SAR'000)	
	Quoted	**Unquoted**	**Total**
Murabaha with Saudi Government and SAMA	**-**	**22,904,021**	**22,904,021**
Structured Products	**-**	**2,502,525**	**2,502,525**
Sukuk	**24,143,625**	**4,262,792**	**28,406,417**
Equities	**3,902,056**	**24,389**	**3,926,445**
Mutual funds	**2,291,749**	**254,115**	**2,545,864**
Total	**30,337,430**	**29,947,842**	**60,285,272**

6. INVESTMENTS, NET (continued)

2019	(SAR'000)		
	Quoted	Unquoted	Total
Murabaha with Saudi Government and SAMA	-	24,991,978	24,991,978
Sukuk	13,248,750	5,502,359	18,751,109
Equities	1,844,477	24,355	1,868,832
Mutual funds	1,230,711	-	1,230,711
Total	16,323,938	30,518,692	46,842,630

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

2020 (SAR'000)	**Gross carrying value**	**Gross unrecognized gains**	**Gross unrecognized losses**	**Fair value**
Murabaha with Saudi Government and SAMA	**22,904,021**	**322,861**	**-**	**23,226,882**
Sukuk	**28,406,417**	**915,263**	**-**	**29,321,680**
Structure Product	**2,502,525**	**48,310**	**-**	**2,550,835**
Equities	**3,926,445**	**-**	**-**	**3,926,445**
Mutual funds	**2,545,864**	**-**	**-**	**2,545,864**
Total	**60,285,272**	**1,286,434**	**-**	**61,571,706**

2019 (SAR'000)	Gross carrying value	Gross unrecognized gains	Gross unrecognized losses	Fair value
Murabaha with Saudi Government and SAMA	24,991,978	276,199	-	25,268,177
Sukuk	18,773,379	384,209	-	19,157,588
Equities	1,868,832	-	-	1,868,832
Mutual funds	1,230,711	-	-	1,230,711
Total	46,864,900	660,408	-	47,525,308

d) Credit quality of investments

(SAR'000)	**2020**	2019
Murabaha with Saudi Government and SAMA	**22,904,021**	24,991,978
Sukuk - Investment grade	**26,404,319**	18,565,484
Structured Products - Investment grade	**2,502,525**	-
Sukuk - BB+ (Fitch)	**597,098**	185,625
Sukuk unrated	**1,405,000**	-
Total	**53,812,963**	43,743,087

Investment Grade includes those investments having credit exposure equivalent to Standard and Poor's rating of AAA to BBB. The unrated category only comprise of unquoted sukuk. Fitch has assigned A rating to KSA as a country as at 31 December 2020 (31 December 2019 : A).

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6. INVESTMENTS, NET (continued)

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

(SAR'000)	2020	2019
Investments held at amortized cost		
Sukuk	**3,766,053**	1,128,857
FVOCI investments		
Sukuk	**604,332**	-
Equity investments	**21,309**	21,274
Investments held as FVSI		
Mutual funds	**190,843**	13,409
Total	**4,582,537**	1,163,540

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

(SAR'000)	2020	2019
Government and quasi government	**45,718,805**	41,780,947
Banks and other financial institutions	**5,091,120**	800,000
Companies	**6,956,445**	3,053,242
Mutual funds	**2,545,864**	1,230,711
Less: Impairment (Stage 1)	**(26,962)**	(22,270)
Net investments	**60,285,272**	46,842,630

7. FINANCING, NET

7–1 Financing

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

	(SAR'000) 2020			
	Performing	**Non-performing**	**Allowance for impairment**	**Net financing**
Mutajara	**38,536,363**	**1,690,865**	**(2,995,894)**	**37,231,334**
Installment sale	**259,150,038**	**728,401**	**(4,398,923)**	**255,479,516**
Murabaha	**19,725,827**	**-**	**(55,734)**	**19,670,093**
Credit cards	**3,326,115**	**25,848**	**(20,805)**	**3,331,158**
Total	**320,738,343**	**2,445,114**	**(7,471,356)**	**315,712,101**

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

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7. FINANCING, NET (continued)

7–1 Financing (continued)

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

	(SAR'000)				
	2020				
Description	Mutajara	Installment sale	Murabaha	Credit cards	Total
Inside the Kingdom of Saudi Arabia	**40,227,228**	**255,124,933**	**14,595,825**	**3,345,758**	**313,293,744**
Outside the Kingdom of Saudi Arabia	**-**	**4,753,506**	**5,130,002**	**6,205**	**9,889,713**
Gross financing	**40,227,228**	**259,878,439**	**19,725,827**	**3,351,963**	**323,183,457**
Allowance for impairment	**(2,995,894)**	**(4,398,923)**	**(55,734)**	**(20,805)**	**(7,471,356)**
Net financing	**37,231,334**	**255,479,516**	**19,670,093**	**3,331,158**	**315,712,101**

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

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

	(SAR'000)		
2020	**Retail**	**Corporate**	**Total**
Mutajara	**1,202,886**	**39,024,342**	**40,227,228**
Installment sale	**250,470,267**	**9,408,172**	**259,878,439**
Murabaha	**-**	**19,725,827**	**19,725,827**
Credit cards	**3,351,963**	**-**	**3,351,963**
Financing, gross	**255,025,116**	**68,158,341**	**323,183,457**
Less: Allowance for impairment	**(4,365,761)**	**(3,105,595)**	**(7,471,356)**
Financing, net	**250,659,355**	**65,052,746**	**315,712,101**

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

7. FINANCING, NET (continued)

7–1 Financing (continued)

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

2020	**(SAR'000)**					
	Neither past due nor impaired	**Past due but not impaired**	**Impaired**	**Total**	**Allowance for impairment**	**Net financing**
Retail	**250,651,757**	**3,619,110**	**754,249**	**255,025,116**	**(4,365,761)**	**250,659,355**
Corporate	**60,624,852**	**5,842,624**	**1,690,865**	**68,158,341**	**(3,105,595)**	**65,052,746**
Total	**311,276,609**	**9,461,734**	**2,445,114**	**323,183,457**	**(7,471,356)**	**315,712,101**

2019	(SAR'000)					
	Neither past due nor impaired	Past due but not impaired	Impaired	Total	Allowance for impairment	Net financing
Retail	187,434,532	2,491,249	629,719	190,555,500	(3,832,473)	186,723,027
Corporate	58,325,789	6,134,038	1,687,074	66,146,901	(3,187,123)	62,959,778
Total	245,760,321	8,625,287	2,316,793	256,702,401	(7,019,596)	249,682,805

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

7-2 Allowance for impairment of financing:

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

2020	**(SAR'000)**		
	Retail	**Corporate**	**Total**
Balance at beginning of the year	**3,832,473**	**3,187,123**	**7,019,596**
Gross charge for the year	**2,209,585**	**1,008,710**	**3,218,295**
Bad debts written off against provision	**(1,676,297)**	**(1,090,238)**	**(2,766,535)**
Balance at the end of the year	**4,365,761**	**3,105,595**	**7,471,356**

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

7. FINANCING, NET (continued)

7-2 Allowance for impairment of financing (continued):

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

2020

	(SAR '000')			
	12 month ECL	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Financings to customers at amortized cost				
Balance at 1 January 2020	**2,224,089**	**3,090,301**	**2,333,575**	**7,647,965**
Transfer to 12 month ECL	**256,884**	**(256,884)**	**-**	**-**
Transfer to Lifetime ECL not credit impaired	**(65,311)**	**118,509**	**(53,198)**	**-**
Transfer to Lifetime ECL credit impaired	**(15,473)**	**(247,993)**	**263,466**	**-**
Charge for the year	**349,924**	**415,810**	**2,652,691**	**3,418,425**
Write-offs	**(345,799)**	**(309,824)**	**(2,371,249)**	**(3,026,872)**
Balance as at 31 December 2020	**2,404,314**	**2,809,919**	**2,825,285**	**8,039,518**

2019

	(SAR '000')			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Financings to customers at amortized cost				
Balance at 1 January 2019	2,630,470	3,570,795	1,842,389	8,043,653
Transfer to 12 month ECL	713,995	(713,995)	-	-
Transfer to Lifetime ECL not credit impaired	(38,929)	71,051	(32,122)	-
Transfer to Lifetime ECL credit impaired	(9,902)	(252,175)	262,077	-
Charge for the period	(602,243)	768,639	2,831,119	2,997,515
Write-offs	(469,302)	(354,013)	(2,569,887)	(3,393,203)
Balance as at 31 December 2019	2,224,089	3,090,301	2,333,575	7,647,965

Closing balance as at 31 December 2020, includes impairment allowance related to off balance sheet items amounting to SAR 568 million (2019: SAR 368 million) which is accounted for in other liabilities. Closing balance of Lifetime ECL credit impaired differs from total reported Non-Performing financing (NPL) due to IFRS 9 implementation.

7. FINANCING, NET (continued)

7-2 Allowance for impairment of financing (continued):

2020	**(SAR '000')**			
Retail	**12 month ECL**	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Financings to customers at amortized cost				
Balance at 1 January 2020	**1,656,406**	**1,662,188**	**773,878**	**4,092,472**
Transfer to 12 month ECL	**206,493**	**(206,493)**	**-**	**-**
Transfer to Lifetime ECL not credit impaired	**(53,588)**	**106,625**	**(53,037)**	**-**
Transfer to Lifetime ECL credit impaired	**(10,890)**	**(60,716)**	**71,606**	**-**
Charge for the year	**400,113**	**371,282**	**1,438,190**	**2,209,585**
Write-offs	**(345,799)**	**(309,824)**	**(1,280,673)**	**(1,936,296)**
Balance as at 31 December 2020	**1,852,735**	**1,563,062**	**949,964**	**4,365,761**
2019				
Balance at 1 January 2019	2,242,794	1,115,136	692,635	4,050,565
Transfer to 12 month ECL	236,154	(236,154)		-
Transfer to Lifetime ECL not credit impaired	(32,913)	65,035	(32,122)	-
Transfer to Lifetime ECL credit impaired	(6,986)	(71,995)	78,981	-
Charge for the year	(313,340)	1,144,178	998,110	1,828,948
Write-offs	(469,302)	(354,013)	(963,726)	(1,787,041)
Balance as at 31 December 2019	1,656,407	1,662,187	773,878	4,092,472

7. FINANCING, NET (continued)

7-2 Allowance for impairment of financing (continued):

2020	(SAR '000')			
Corporate	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Financings to customers at amortized cost				
Balance at 1 January 2020	**567,683**	**1,428,113**	**1,559,697**	**3,555,493**
Transfer to 12 month ECL	**50,391**	**(50,391)**	**-**	**-**
Transfer to Lifetime ECL not credit impaired	**(11,723)**	**11,884**	**(161)**	**-**
Transfer to Lifetime ECL credit impaired	**(4,582)**	**(187,278)**	**191,860**	**-**
Charge for the year	**(50,190)**	**44,529**	**1,214,502**	**1,208,841**
Write-offs	**-**	**-**	**(1,090,577)**	**(1,090,577)**
Balance as at 31 December 2020	**551,579**	**1,246,857**	**1,875,321**	**3,673,757**
2019				
Balance at 1 January 2019	387,676	2,455,658	1,149,754	3,993,088
Transfer to 12 month ECL	477,841	(477,841)	-	-
Transfer to Lifetime ECL not credit impaired	(6,016)	6,016	-	-
Transfer to Lifetime ECL credit impaired	(2,916)	(180,181)	183,096	-
Charge for the period	(288,903)	(375,539)	1,833,009	1,168,567
Write-offs	-	-	(1,606,162)	(1,606,162)
Balance as at 31 December 2019	567,683	1,428,113	1,559,697	3,555,493

For Corporate opening balance will be higher by 211 million for off balance provision and the closing will be higher by SAR 368 million for off balance provision in 2019. For 2020 the total includes off balance sheet provision of SAR 568 million.

2020	(SAR '000')			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Financings to customers at amortized cost				
Balance at 1 January 2020	**244,233,853**	**9,730,883**	**2,737,665**	**256,702,401**
Transfer to 12 month ECL	**1,449,420**	**(1,449,420)**	**-**	**-**
Transfer to Lifetime ECL not credit impaired	**(3,152,175)**	**3,257,063**	**(104,888)**	**-**
Transfer to Lifetime ECL credit impaired	**(612,722)**	**(743,352)**	**1,356,074**	**-**
Write-offs	**(345,799)**	**(309,824)**	**(2,371,249)**	**(3,026,872)**
New Business / Movement	**65,885,808**	**1,787,599**	**1,834,522**	**69,507,929**
Balance as at 31 December 2020	**307,458,385**	**12,272,949**	**3,452,124**	**323,183,458**

7. FINANCING, NET (continued)

7-2 Allowance for impairment of financing (continued):

2019	(SAR '000')			
	12 month ECL	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Financings to customers at amortized cost				
Balance at 1 January 2019	230,756,736	6,543,629	2,290,312	239,590,677
Transfer to 12 month ECL	3,473,536	(3,473,536)	-	-
Transfer to Lifetime ECL not credit impaired	(1,427,741)	1,480,118	(52,377)	-
Transfer to Lifetime ECL credit impaired	(175,895)	(679,980)	855,875	-
Write-offs	(469,302)	(354,013)	(2,569,887)	(3,393,202)
New Business / Movement	12,076,518	6,214,665	2,213,743	20,504,926
Balance as at 31 December 2019	244,233,852	9,730,883	2,737,666	256,702,401

2020	**(SAR '000')**			
Retail	**12 month ECL**	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Financings to customers at amortized cost				
Balance at 1 January 2020	**186,184,436**	**3,320,473**	**1,050,591**	**190,555,500**
Transfer to 12 month ECL	**820,807**	**(820,807)**	**-**	**-**
Transfer to Lifetime ECL not credit impaired	**(2,018,928)**	**2,123,816**	**(104,888)**	**-**
Transfer to Lifetime ECL credit impaired	**(422,408)**	**(144,054)**	**566,462**	**-**
Write-offs	**(345,799)**	**(309,824)**	**(1,280,672)**	**(1,936,295)**
New Business / Movement	**63,138,025**	**1,738,121**	**1,529,766**	**66,405,912**
Balance as at 31 December 2020	**247,356,133**	**5,907,725**	**1,761,259**	**255,025,117**
2019				
Balance at 1 January 2019	169,473,152	276,300	603,457	170,352,909
Transfer to 12 month ECL	700,777	(700,777)		-
Transfer to Lifetime ECL not credit impaired	(956,070)	1,008,447	(52,377)	-
Transfer to Lifetime ECL credit impaired	(69,959)	(74,226)	144,185	-
Write-offs	(469,302)	(354,013)	(963,725)	(1,787,040)
New Business / Movement	17,505,838	3,164,741	1,319,052	21,989,631
Balance as at 31 December 2019	186,184,436	3,320,472	1,050,592	190,555,500

7. FINANCING, NET (continued)

7-2 Allowance for impairment of financing (continued):

2020	**(SAR '000')**			
Corporate	**12 month ECL**	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Financings to customers at amortized cost				
Balance at 1 January 2020	**58,049,416**	**6,410,411**	**1,687,074**	**66,146,901**
Transfer to 12 month ECL	**628,613**	**(628,613)**	**-**	**-**
Transfer to Lifetime ECL not credit impaired	**(1,133,246)**	**1,133,246**	**-**	**-**
Transfer to Lifetime ECL credit impaired	**(190,313)**	**(599,299)**	**789,612**	**-**
Write-offs	**-**	**-**	**(1,090,577)**	**(1,090,577)**
New Business / Movement	**2,747,782**	**49,479**	**304,756**	**3,102,017**
Balance as at 31 December 2020	**60,102,252**	**6,365,224**	**1,690,865**	**68,158,341**
2019				
Balance at 1 January 2019	61,283,584	6,267,329	1,686,855	69,237,768
Transfer to 12 month ECL	2,772,759	(2,772,759)	-	-
Transfer to Lifetime ECL not credit impaired	(471,671)	471,671	-	-
Transfer to Lifetime ECL credit impaired	(105,935)	(605,754)	711,689	-
Write-offs	-	-	(1,606,162)	(1,606,162)
New Business / Movement	(5,429,321)	3,049,924	894,692	(1,484,705)
Balance as at 31 December 2019	58,049,416	6,410,411	1,687,074	66,146,901

7-3 Impairment charge movement

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

	(SAR'000)	
	2020	2019
Provided for the year for on balance sheet	**3,218,295**	2,840,327
Provided for the year for off balance sheet	**200,130**	157,187
Recovery of written off financing, net	**(1,252,685)**	(1,225,249)
Allowance for financing impairment, net	**2,165,740**	1,772,265

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

	(SAR'000)	
	2020	2019
Gross receivables from finance leases	**24,042,741**	25,261,591
Less than 1 year	**1,313,474**	367,707
1 to 5 years	**15,397,354**	17,072,183
Over 5 years	**7,331,913**	7,821,701
	24,042,741	25,261,591
Unearned future finance income on finance leases	**(3,226,606)**	(3,690,399)
Net receivables from finance leases	**20,816,135**	21,571,192

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8. PROPERTY AND EQUIPMENT, NET

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

	(SAR'000)					
	Land	**Buildings**	**Leasehold land & buildings improvements**	**Equipment and furniture**	**Right-of-Use assets**	**Total**
COST						
At 1 January 2019	2,343,825	4,329,484	949,754	4,951,701	1,352,361	13,927,125
Additions	156	1,884,315	383,707	384,430	177,738	2,830,346
Disposals	(6,096)	-	-	(32,190)	-	(38,286)
At 31 December 2019	**2,337,885**	**6,213,799**	**1,333,461**	**5,303,941**	**1,530,099**	**16,719,185**
Additions	27,675	6,964	259,571	630,849	20,627	945,686
Disposals	(14,588)	(38,884)	-	(45,287)	-	(98,759)
At 31 December 2020	**2,350,972**	**6,181,879**	**1,593,032**	**5,889,503**	**1,550,726**	**17,566,113**
ACCUMULATED DEPRECIATION						
As at 1 January 2019	-	484,241	919,222	3,874,227	-	5,277,690
Charge for the year	-	373,782	77,624	368,339	239,837	1,059,582
Disposals	-	-	-	(25,334)	-	(25,334)
At 31 December 2019	**-**	**858,023**	**996,846**	**4,217,232**	**239,837**	**6,311,938**
Charge for the year	-	137,154	102,203	628,072	212,742	1,080,171
Disposals	-	(31,984)		(28,797)	-	(60,781)
At 31 December 2020	**-**	**963,193**	**1,099,049**	**4,816,507**	**452,579**	**7,331,328**
NET BOOK VALUE						
At 31 December 2020	**2,350,972**	**5,218,686**	**493,983**	**1,072,996**	**1,098,147**	**10,234,785**
At 31 December 2019	2,337,885	5,355,776	336,615	1,086,709	1,290,262	10,407,247

Buildings include work-in-progress amounting to SAR 225 million as at 31 December 2020 (2019: SAR 159 million), and technology-related assets include work-in-progress amounting to SAR 595 million as of December 2020 (2019: SAR 608 million).

8. PROPERTY AND EQUIPMENT, NET (continued)

Equipment and furniture includes information technology-related assets as follows:

	Tangible	Intangible	Total
COST			
At 31 December 2019	1,546,127	-	1,546,127
Additions	264,598	102,614	367,212
Disposals	-	-	-
At 31 December 2020	**1,810,725**	**102,614**	**1,913,339**
ACCUMULATED DEPRECIATION			
At 31 December 2019	899,976	-	899,976
Charge for the year	257,388	14,687	272,075
Disposals	-	-	-
At 31 December 2020	**1,157,364**	**14,687**	**1,172,051**
NET BOOK VALUE			
At 31 December 2020	**653,361**	**87,927**	**741,288**
At 31 December 2019	646,150	-	646,150

9. INVESTMENT PROPERTIES, NET

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

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

	Land	Buildings	Total
COST			
Balance at 1 January 2019	811,670	538,776	1,350,446
Additions	82,753	20,727	103,480
At 31 December 2019	**894,423**	**559,503**	**1,453,926**
Additions	**-**	**195,339**	**195,339**
At 31 December 2020	**894,423**	**754,842**	**1,649,265**
ACCUMULATED DEPRECIATION			
Balance at 1 January 2019	-	(52,856)	(52,856)
Charge for the year	-	(17,221)	(17,221)
At 31 December 2019	-	**(70,077)**	**(70,077)**
Charge for the year	**-**	**(37,977)**	**(37,977)**
At 31 December 2020	**-**	**(108,054)**	**(108,054)**
NET BOOK VALUE			
At 31 December 2020	**894,423**	**646,788**	**1,541,211**
At 31 December 2019	894,423	489,426	1,383,849

10. OTHER ASSETS, NET

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

	(SAR'000)	
	2020	2019
Receivables, net	**1,613,343**	1,125,228
Prepaid expenses	**218,304**	498,690
Assets in transit subject to financing	**1,332,565**	1,289,212
Accrued income	**276,169**	294,421
Cheques under collection	**413,397**	392,958
Advance payments	**262,475**	386,032
Other real estate	**73,411**	60,420
Others, net	**844,326**	370,803
Total	**5,033,990**	4,417,764

11. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

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

	(SAR'000)	
	2020	2019
Current accounts	**448,288**	545,572
Banks' time investments	**10,315,773**	1,674,032
Total	**10,764,061**	2,219,604

In order to offset the modification losses that the Bank is expected to incur in deferring the payments as disclosed in note 38, the Bank has received profit free deposits from SAMA of (SAR 2.97 billion for 3 years, SAR 674 million for 1.5 years and SAR 5.2 billion for 1 year). Some of these deposits tenures have been extanded by SAMA during Q4 2020. Please refer to note 38.

12. CUSTOMERS' DEPOSITS

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

	(SAR'000)	
	2020	2019
Demand deposits	**327,572,511**	284,299,851
Customers' time investments	**43,017,282**	22,126,226
Other customer accounts	**12,041,210**	5,979,746
Total	**382,631,003**	312,405,823

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

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

	(SAR'000)	
	2020	2019
Saudi Arabian Riyals	**365,253,514**	298,569,853
Foreign currencies	**17,377,489**	13,835,970
Total	**382,631,003**	312,405,823

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13. OTHER LIABILITIES

Other liabilities comprise the following as of 31 December:

	(SAR'000)	
	2020	2019
Accounts payable	**4,317,852**	4,225,376
Employees' end of service benefits liabilities (note 25)	**1,176,075**	980,304
Accrued expenses	**1,554,957**	1,243,720
Charities (note 32)	**8,885**	10,994
Zakat payable	**3,812,601**	4,627,204
Lease liability	**1,128,141**	1,294,689
Other	**5,312,630**	5,887,205
Total	**17,311,141**	18,269,492

14. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank consists of 2,500 million shares of SAR 10 each (2019: 2,500 million shares of SAR 10 each).

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

15. STATUTORY AND OTHER RESERVES

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

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

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

2020	(SAR'000)				
	FVOCI investments	**Foreign currency translation**	**Employee share Plan reserve**	**Re-measurement of employees' end of service benefits**	**Total**
Balance at beginning of the year	**(80,944)**	**(120,577)**	**37,110**	**(51,630)**	**(216,041)**
Net change in fair value	**254,222**	**-**	**-**	**-**	**254,222**
Exchange difference on translation of foreign operations	**-**	**6,696**	**-**	**-**	**6,696**
Re-measurement of employees' end of service benefits (note 25)	**-**	**-**	**-**	**(179,605)**	**(179,605)**
Balance at the end of the year	**173,278**	**(113,881)**	**37,110**	**(231,235)**	**(134,728)**

15. STATUTORY AND OTHER RESERVES (continued)

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

16. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

As at 31 December 2020, there were certain legal proceedings outstanding against the Group in the normal course of business including those relating to the extension of credit facilities. Such proceedings are being reviewed by the concerned parties.

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

b) Capital commitments

As at 31 December 2020, the Group had capital commitments of SAR 540 million (2019: SAR 290 million) relating to contracts for computer software update and development, and SAR 238 million (2019: SAR 145 million) relating to building new workstations, and development and improvement of new and existing branches.

c) Credit related commitments and contingencies

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

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

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

Commitments to extend credit represent unused portions of authorization to extended credit, principally in the form of financing, guarantees and letters of credit. With respect to credit risk relating to commitments to extend unused credit, the Bank is potentially exposed to a loss in an amount which is equal to the total unused commitments. The likely amount of loss, which cannot be reasonably estimated, is expected to be considerably less than the total unused commitments, since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

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16. COMMITMENTS AND CONTINGENCIES (continued)

c) Credit related commitments and contingencies (continued)

The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire without being funded.

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

2020	**(SAR'000)**				
	Less than 3 months	**From 3 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
Letters of credit	**1,729,492**	**545,033**	**104,908**	**-**	**2,379,433**
Acceptances	**305,577**	**365,191**	**-**	**-**	**670,768**
Letters of guarantee	**760,935**	**3,310,309**	**1,171,463**	**200,481**	**5,443,188**
Irrevocable commitments to extend credit	**3,880,062**	**6,265,899**	**516,740**	**-**	**10,662,701**
Total	**6,676,066**	**10,486,432**	**1,793,111**	**200,481**	**19,156,090**

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

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

	(SAR'000)	
	2020	2019
Corporates	**18,318,019**	16,322,590
Banks and other financial institutions	**838,071**	1,502,608
Total	**19,156,090**	17,825,198

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17. NET FINANCING AND INVESTMENT INCOME

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

	(SAR'000)	
	2020	2019
Financing		
Corporate Mutajara	**1,629,182**	2,531,823
Installment sale	**12,819,648**	11,154,919
Murabaha	**802,882**	859,641
Investments and other		
Murabaha with SAMA	**970,595**	1,210,789
Mutajara with banks	**980,343**	1,007,516
Income from sukuk	**175,313**	197,895
Gross financing and investment income	**17,377,963**	16,962,583
Return on customers' time investments	**(354,193)**	(418,891)
Return on due to banks and financial institutions' time investments	**(110,753)**	(115,969)
Return on customers', banks' and financial institutions' time investments	**(464,946)**	(534,860)
Net financing and investment income	**16,913,017**	16,427,723

18. FEE FROM BANKING SERVICES, NET

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

	(SAR'000)	
	2020	2019
Fee income:		
Drafts and remittances	**270,434**	354,981
Credit cards	**416,816**	441,705
Other electronic channel related	**1,218,272**	1,068,318
Brokerage and asset management, net	**672,193**	281,151
Others	**702,423**	711,525
Total fee income	**3,280,138**	2,857,680
Fee expenses:		
ATM Interchange related	**(620,458)**	(870,313)
Fee from banking services, net	**2,659,680**	1,987,367

19. OTHER OPERATING INCOME, NET

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

	(SAR'000)	
	2020	2019
Dividend income	**94,445**	58,625
Gain / (loss) on sale of property and equipment, net	**10,256**	568
Rental income from investment properties	**96,134**	117,718
Share in profit of an associate	**42,944**	23,481
Gain on investments held as FVSI	**33,441**	21,617
Loss on sale of other real estate	**(2,251)**	(2,490)
Other income, net	**89,700**	75,759
Total	**364,669**	295,278

20. SALARIES AND EMPLOYEES' RELATED BENEFITS

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

2020

	(SAR'000)			
	Number of employees	Fixed and variable compensation	Variable compensations paid Cash	Variable compensations paid Shares
Executives	22	40,552	20,591	45,954
Employees engaged in risk taking activities	1,684	509,487	131,639	20,312
Employees engaged in control functions	412	155,859	25,969	21,608
Other employees	11,598	1,826,261	274,757	28,022
Total	13,716	2,532,159	452,956	115,896
Accrued compensations in 2020	-	188,652	-	-
Other employees' costs	-	256,533	-	-
Gross total	13,716	2,977,344	452,956	115,896

2019

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

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

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

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

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

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

20. SALARIES AND EMPLOYEES' RELATED BENEFITS (continued)

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

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

21. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

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

	(SAR'000)	
	2020	2019
Communications and utilities expenses	**628,591**	481,424
Maintenance and security expenses	**547,520**	460,550
Cash feeding and transfer expenses	**338,404**	355,245
Software and IT support expenses	**351,348**	277,520
Other operational expenses	**780,546**	957,474
Total	**2,646,409**	2,532,213

22. EARNINGS PER SHARE

Earnings per share for the years ended 31 December 2020 and 2019 have been calculated by dividing the net income for the period by 2,500 million shares. The diluted earnings per share is the same as the basic earnings per share.

23. PAID DIVIDENDS

On 6th of April 2020, the bank has paid final dividends for the year 2019 amounting to SAR 3,750 million (i.e. SAR 1.5 per share).

24. CASH AND CASH EQUIVALENTS

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

	(SAR'000)	
	2020	2019
Cash in hand	**7,355,940**	7,404,276
Due from banks and other financial institutions maturing within 90 days from the date of purchased	**8,924,379**	2,480,803
Balances with SAMA and other central banks (current accounts)	**311,493**	371,320
Mutajara with SAMA	**16,235,549**	10,855,000
Total	**32,827,361**	21,111,399

25. EMPLOYEES' END OF SERVICE BENEFITS LIABILITIES

25.1 General description

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

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

	2020 SAR' 000	2019 SAR' 000
Employees' end of service benefits liabilities at the beginning of the year	**980,304**	901,970
Current service cost	**86,355**	98,541
Financing cost	**38,041**	39,845
Benefits paid	**(108,230)**	(111,682)
Remeasurement loss	**179,605**	51,630
Employees' end of service benefits liabilities at the end of the year	**1,176,075**	980,304

25.3 Charge for the year

	2020 SAR' 000	2019 SAR' 000
Current service cost	**86,355**	98,541
Past service cost	**-**	-
	86,355	98,541

25.4 Re-measurement recognised in other comprehensive income

	2020 SAR' 000	2019 SAR' 000
Gain from change in experience assumptions	**(10,911)**	(5,940)
Loss from change in demographic assumptions	**532**	-
Loss from change in financial assumptions	**189,984**	57,570
	179,605	51,630

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

	2020	2019
Discount rate	**2.75%**	4.20%
Expected rate of salary increase	**2.6% for FY 2021 and 2022 and 3% thereafter**	3.00%
Normal retirement age	**60 years for male employees and 55 for female employees**	60 years for male employees and 55 for female employees

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

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25. EMPLOYEES' END OF SERVICE BENEFITS LIABILITIES (continued)

25.6 Sensitivity of actuarial assumptions

The table below illustrates the sensitivity of the employees' end of service benefits liabilities valuation as at 31 December 2020 to the discount rate 2.75% (31 December 2019: 4.20%), salary increase rate 2.6% (31 December 2019: 3.00%), withdrawal assumptions and mortality rates.

	SAR 000'		
2020	**Impact on defined benefit obligation – Increase / (Decrease)**		
Base Scenario	**Change in assumption**	**Increase in assumption**	**Decrease in assumption**
Discount rate	**+/- 100 basis points**	**(64,586)**	**213,380**
Expected rate of salary increase	**+/- 100 basis points**	**224,989**	**(76,315)**
Normal retirement age	**Increase or decrease by 20%**	**28,398**	**(98,239)**

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

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

25.7 Expected maturity

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

As at 31 December	Discounted liability	Less than a year	1-2 years	2-5 years	Over 5 years	Total
2020	**1,176,075**	**82,333**	**91,365**	**307,844**	**2,894,768**	**3,376,310**
2019	980,304	66,110	72,742	256,803	3,638,241	4,033,896

The weighted average duration of the employees' end of service benefits liabilities is 13 years (2019: 14.4 years).

26. OPERATING SEGMENTS

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

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

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

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

26. OPERATING SEGMENTS (continued)

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

	(SAR'000)				
2020	**Retail segment**	**Corporate segment**	**Treasury segment**	**Investment services and brokerage segment**	**Total**
Total assets	268,108,817	66,837,087	129,950,664	3,928,155	468,824,723
Total liabilities	289,583,836	108,514,833	12,442,931	164,605	410,706,205
Gross financing and investment income from external customers	12,663,068	2,605,515	2,061,630	47,750	17,377,963
Inter-segment operating income/ (expense)	(1,151,245)	(123,039)	1,274,284	-	-
Gross financing and investment income	11,511,823	2,482,476	3,335,914	47,750	17,377,963
Return on customers', banks' and financial institutions' time investments	(224,644)	(103,026)	(137,276)	-	(464,946)
Net financing and investment income	11,287,179	2,379,450	3,198,638	47,750	16,913,017
Fees from banking services, net	1,815,919	124,181	47,388	672,192	2,659,680
Exchange income, net	158,864	111,056	513,975	-	783,895
Other operating income, net	99,407	4	179,831	85,426	364,668
Total operating income	13,361,369	2,614,691	3,939,832	805,368	20,721,260
Depreciation and amortization	(1,046,484)	(41,570)	(22,801)	(7,293)	(1,118,148)
Impairment charge for financing and other financial assets, net	(1,164,985)	(1,000,755)	-	-	(2,165,740)
Other operating expenses	(5,006,796)	(284,449)	(181,975)	(150,533)	(5,623,753)
Total operating expenses	(7,218,265)	(1,326,774)	(204,776)	(157,826)	(8,907,641)
Income before zakat	6,143,104	1,287,917	3,735,056	647,542	11,813,619

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26. OPERATING SEGMENTS (continued)

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

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

2020	**Retail segment**	**Corporate segment**	**Treasury segment**	**Investment services and brokerage segment**	**Total**
	(SAR'000)				
Consolidated balance sheet assets	**250,659,355**	**65,052,746**	**79,241,453**	**3,337,170**	**398,290,724**
Commitments and contingencies excluding irrevocable commitments to extend credit	**-**	**8,493,389**	**-**	**-**	**8,493,389**

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26. OPERATING SEGMENTS (continued)

2019	(SAR'000) Retail segment	Corporate segment	Treasury segment	Investment services and brokerage segment	Total
Consolidated balance sheet assets	186,723,027	62,959,778	73,070,757	2,730,512	325,484,074
Commitments and contingencies excluding irrevocable commitments to extend credit	-	6,189,104	-	-	6,189,104

27. FINANCIAL RISK MANAGEMENT

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

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

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

27-1 Credit risk

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

a) Credit risk measurement

i) Financing

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

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a. Credit risk measurement (continued)

i) Financing (continued)

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

ii) Credit risk grades

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

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

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

- Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections.
- Data from credit reference agencies, press articles, changes in external credit ratings
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities

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

iii) Generating the term structure of PD

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

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

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

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

iii) Generating the term structure of PD (continued)

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

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

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

Risk Rating 4
Good - Typically obligors in the high end of the medium range who are definitely sound with minor risk characteristics. Elements of strength are present in such areas as liquidity, stability of margins, cash flows, diversity of assets, and lack of dependence on one type of business.

Risk Rating 5
Satisfactory - These are obligors with smaller margins of debt service coverage and with some elements of reduced strength. Satisfactory asset quality, liquidity, and good debt capacity and coverage. A loss year or declining earnings trend may occur, but the borrowers have sufficient strength and financial flexibility to offset these issues.

Risk Rating 6
Adequate - Obligors with declining earnings, strained cash flow, increasing leverage and/ or weakening market fundamentals that indicate above average risk, such borrowers have limited additional debt capacity, modest coverage, average or below average asset quality and market share. Present borrower performance is satisfactory, but could be adversely affected by developing collateral quality/ adequacy etc.

Risk Rating 7
Very high risk - Generally undesirable business constituting an undue and unwarranted credit risk but not to the point of justifying a substandard classification. No loss of principal or profit has taken place. Potential weakness might include a weakening financial condition, an unrealistic repayment program, inadequate sources of funds, or a lack of adequate collateral, credit information or documentation. The entity is undistinguished and mediocre. No new or incremental credits will generally be considered for this category.

Risk Rating 8
Substandard - Obligors in default and 90 Days Past Due on repayment of their obligations. Unacceptable business credit. Normal repayment is in jeopardy, and there exists well defined weakness in support of the same. The asset is inadequately protected by the current net worth and paying capacity of the obligor or pledged collateral. Specific provision raised as an estimate of potential loss.

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

iii) Generating the term structure of PD (continued)

Risk Rating 9
Doubtful - Obligors in default and 180 Days Past Due (DPD) on their contracted obligations, however in the opinion of the management recovery/ salvage value against corporate and real estate obligors is a possibility, and hence write-off should be deferred. Full repayment questionable. Serious problems exist to the point where a partial loss of principle is likely. Weaknesses are so pronounced that on the basis of current information, conditions and values, collection in full is highly improbable. Specific provision raised as an estimate of potential loss. However, for retail obligors (except real estate) and credit cards, total loss is expected. A 100% Specific Provisioning must be triggered followed by the write-off process should be effected as per Al Rajhi Bank write-off policy.

Risk Rating 10
Loss - Obligors in default and 360 Days Past Due (DPD) on their obligations. Total loss is expected. An uncollectible assets which does not warrant classification as an active asset. A 100% Specific Provisioning must be triggered followed by the write-off process should be effected as per Al Rajhi Bank write-off policy.

iv) ECL - Significant increase in credit risk

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

For Corporate portfolio, the Bank's assessment of significant increase in credit risk is based on facility level except for watch-list accounts, whereby the Bank's assessment is based on counterparty. Significant increase in credit risk assessment for retail loans is carried out at customer level within same product family. All the exposures which are considered to have significantly increased in credit risk are subject to lifetime ECL.

The Bank considers all investment grade debt securities issued by sovereigns including Gulf Corporation Council (GCC) countries to have low credit risk.

v) Determining whether credit risk has increased significantly

In determining whether credit risk has increased significantly since initial recognition, the Bank uses its internal credit risk grading system, external risk ratings, quantitative changes in PDs , delinquency status of accounts, expert credit judgement and, where possible, relevant historical experience.

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition based on quantitative assessment and / or using its expert credit judgment and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

v) Determining whether credit risk has increased significantly (continued)

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

The Bank classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below: -

Stage 1: for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Bank recognises an allowance based on the 12-month ECL. All accounts at origination would be classified as Stage 1.

Stage 2: for financial instruments where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired, the Bank recognises an allowance for the lifetime ECL for all financings categorized in this stage based on the actual / expected behavioral maturity profile including restructuring or rescheduling of facilities.

Stage 3: for credit-impaired financial instruments, the Bank recognises the lifetime ECL. Default identification process i.e. DPD of 90 or more is assumed to be stage 3.

vi) Modified financial assets

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

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

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

Forbearance is a qualitative indicator of a significant increase in credit risk, and an expectation of forbearance may constitute evidence that an exposure is credit-impaired/in default. A customer needs to demonstrate consistently good payment behavior over a period of 12 months before the exposure is no longer considered to be credit-impaired/ in default.

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

vii) Definition of 'Default'

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Bank.

Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

In assessing whether a borrower is in default. the Bank considers indicators that are:

- qualitative- e.g. breaches of covenant;
- quantitative- e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied for the bank for regulatory purposes.

viii) Incorporation of forward looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on consideration of a variety of external actual and forecast information from published sources, the Bank formulates a forward looking adjustment to PD term structures to arrive at forward looking PD estimates across the lifetime using macroeconomic models.

The Bank considers scenarios in range of 3-5 years horizon (consistent with forecasts available from public sources), beyond which the long term average macroeconomic conditions prevail. Externally available macroeconomic forecasts from International Monetary Fund (IMF) and Saudi Central Bank (SAMA) are used for making the base case forecast. For other scenarios, adjustments are made to base case forecasts based on expert judgement.

The base case represents a most-likely outcome as published by external sources. The other scenarios represent more optimistic and more pessimistic outcomes.

Economic Indicators	**Weightage 2020**
National Savings as Pct of GDP	**55.44%**
Government expenditure to GDP	**44.56%**

Economic Indicators	Weightage 2019
National Savings as Pct of GDP	55.44%
Government expenditure to GDP	44.56%

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

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 included the following ranges of key indicators.

Economic Indicators	Scenarios	2020	2019
Gross National Savings Pct of GDP	Upside	25.06%	30.67%
	Base (Most Likely)	17.57%	24.07%
	Downside	13.54%	17.46%
Government Expenditure to GDP	Upside	38.92%	39.19%
	Base (Most Likely)	35.76%	37.19%
	Downside	34.06%	35.19%

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

Economic Indicators	Forecast calendar years used in 2020 ECL model			Forecast calendar years used in 2019 ECL model		
	2021	2022	2023	2020	2021	2022
Gross National Savings Pct of GDP	16.65%	16.97%	17.12%	23.71%	22.65%	21.82%
Government Expenditure to GDP	33.87%	31.86%	31.09%	36.14%	35.83%	34.87%

The table below shows the sensitivity of change in economic indicators to the ECL computed under three different scenarios used by Bank:

31 December 2020	Due from Bank and other financial institutions	Investment	Financing	Letters of guarantee	Letters of credit	Irrevocable commitments to extend credit	Total
	SAR '000'						
Most likely (Base case)	73,144	26,962	7,398,212	340,617	191,253	9,330	8,039,518
More optimistic (Upside)	56,419	20,715	6,497,871	334,362	187,367	5,709	7,102,443
More pessimistic (Downside)	93,093	33,266	8,043,601	348,052	195,038	12,782	8,725,832

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data.

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

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

Assumptions sensitized	**ECL Impact (2020) Increase / (Decrease)**
Macro-economic factors:	
National Savings as Pct of GDP increase by 10%	**(207,622,144)**
National Savings as Pct of GDP decrease by 10%	**151,999,029**
Government expenditure to GDP increase by 10%	**(497,277,032)**
Government expenditure to GDP decrease by 10%	**364,053,780**

ix) Measurement of ECL

The Bank measures an ECL at an individual instrument level taking into account the projected cash flows, PD, LGD, CCF and discount rate.

The key inputs into the measurement of ECL are the term structure of the following variables:

i. probability of default (PD);
ii. loss given default (LGD);
iii. exposure at default (EAD).

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

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

For Retail portfolio, bank uses internal LGD models to arrive at the LGD estimates. For Corporate portfolio, bank used supervisory estimates of LGD.

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27-1 Credit risk (continued)

a) Credit risk measurement (continued)

ix) Measurement of ECL (continued)

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. The period of exposure limits the period over which possible defaults are considered and thus affects the determination of PDs and measurement of ECLs (especially for Stage 2 accounts with lifetime ECL).

x) Credit quality analysis

a) The following table sets out information about the credit quality of financings measured at amortized cost as at 31 December :

	2020			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
		SAR '000'		
Carrying amount distribution by Grades				
Grade 1-3 / (Aaa - A3)	**10,218,303**	**-**	**-**	**10,218,303**
Grade (4-6) / (Baa1 - B3)	**49,883,949**	**3,698,775**	**-**	**53,582,724**
Grade 7- Watch list / (Caa1 – C)	**-**	**2,666,449**	**-**	**2,666,449**
Non-performing	**-**	**-**	**1,690,865**	**1,690,865**
Total Corporate performing and non-performing	**60,102,252**	**6,365,224**	**1,690,865**	**68,158,341**
Total Retail (un-rated)	**247,356,133**	**5,907,725**	**1,761,259**	**255,025,117**
Total Carrying amount	**307,458,385**	**12,272,949**	**3,452,124**	**323,183,458**

	2019			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
		SAR '000'		
Carrying amount distribution by Grades				
Grade 1-3 / (Aaa - A3)	13,547,133	-	-	13,547,133
Grade (4-6) / (Baa1 - B3)	44,502,283	3,306,212	-	47,808,495
Grade 7- Watch list / (Caa1 – C)	-	3,104,199	-	3,104,199
Non-performing	-	-	1,687,074	1,687,074
Total Corporate performing and non-performing	58,049,416	6,410,411	1,687,074	66,146,901
Total Retail (un-rated)	186,184,436	3,320,472	1,050,591	190,555,499
Total Carrying amount	244,233,852	9,730,883	2,737,665	256,702,400

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

xi) Financings

a) The net financing concentration risks and the related provision, by major economic sectors at 31 December are as follows:

2020 Description	**Performing**	**Non-Performing**	**Allowance for impairment**	**Net financing**
	(SAR'000)			
Commercial	**20,831,819**	**654,288**	**(527,116)**	**20,958,991**
Industrial	**27,896,009**	**229,237**	**(138,592)**	**27,986,654**
Building and construction	**1,396,185**	**636,587**	**(604,646)**	**1,428,126**
Consumer	**254,270,868**	**754,249**	**(642,253)**	**254,382,864**
Services	**13,936,713**	**170,055**	**(105,083)**	**14,001,685**
Agriculture and fishing	**539,561**	**-**		**539,561**
Others	**1,867,188**	**698**	**(7,122)**	**1,860,764**
Total	**320,738,343**	**2,445,114**	**(2,024,812)**	**321,158,645**
12 month and life time ECL not credit impaired	**-**	**-**	**(5,446,544)**	**(5,446,544)**
Balance	**320,738,343**	**2,445,114**	**(7,471,356)**	**315,712,101**

2019 Description	Performing	Non-Performing	Allowance for impairment	Net financing
	(SAR'000)			
Commercial	19,661,771	590,056	(424,883)	19,826,944
Industrial	26,775,778	375,395	(283,941)	26,867,232
Building and construction	2,031,147	573,757	(401,434)	2,203,470
Consumer	192,926,177	674,114	(532,585)	193,067,706
Services	12,336,880	103,471	(70,882)	12,369,469
Agriculture and fishing	340,974	-	-	340,974
Others	312,881	-	-	312,881
Total	254,385,608	2,316,793	(1,713,725)	254,988,676
12 month and life time ECL not credit impaired	-	-	(5,305,871)	(5,305,871)
Balance	254,385,608	2,316,793	(7,019,596)	249,682,805

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

xi) Financings (continued)

b) The tables below set out the aging of financing past due but not impaired as at 31 December:

2020 Age	**Mutajara** (SAR'000)	**Installment sale**	**Credit cards**	**Total**
up to 30 days	**5,515,679**	**2,333,363**	**108,052**	**7,957,094**
31-60 days	**162,091**	**715,777**	**18,448**	**896,316**
61-90 days	**164,854**	**431,730**	**11,740**	**608,324**
Total	**5,842,624**	**3,480,870**	**138,240**	**9,461,734**
Fair value of collateral	**1,847,413**	**2,261,408**	**-**	**4,108,821**

2019 Age	Mutajara (SAR'000)	Installment sale	Credit cards	Total
up to 30 days	5,567,429	1,436,316	91,568	7,095,313
31-60 days	243,767	612,747	16,978	873,492
61-90 days	322,842	323,959	9,681	656,482
Total	6,134,038	2,373,022	118,227	8,625,287
Fair value of collateral	2,737,767	114,208	-	2,851,975

The Group in the ordinary course of lending activities hold collaterals as security to mitigate credit risk in financings. These collaterals mostly include time, demand, and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. Real estate collaterals against financing are considered as held for sale and included in other assets.

The collaterals are held mainly against commercial and consumer loans and are managed against relevant exposures at their net realizable values. For financial assets that are credit impaired at the reporting period, quantitative information about the collateral held as security is needed to the extent that such collateral mitigates credit risk.

c) The table below sets out gross balances of individually impaired financing, together with the fair value of related collateral held by the Group as at 31 December:

2020	**Retail** (SAR'000)	**Corporate**	**Total**
Individually impaired financing	**754,249**	**1,690,865**	**2,445,114**
Fair value of collateral	**573,602**	**453,208**	**1,026,810**

2019	Retail (SAR'000)	Corporate	Total
Individually impaired financing	629,719	1,687,074	2,316,793
Fair value of collateral	214,921	522,084	737,005

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

xi) Financings (continued)

d) The table below stratifies credit exposures from corporate and retail financing by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the financing or the amount committed for loan commitments to the value of the collateral. The gross amounts exclude any impairment allowance.

(SAR'000)	2020	2019
Less than 50%	**61,641,163**	57,225,432
51-70%	**9,753,323**	9,015,785
71-90%	**60,253,907**	30,830,167
91-100%	**47,993,706**	29,548,809
More than 100%	**3,955,723**	4,070,138
Total exposure	**183,597,822**	130,690,331

b) Settlement risk

The Bank is also exposed to settlement risk in its dealings with other financial institutions. This risk arises when the Bank pays its side of the transaction to the other bank or counterparty before receiving payment from the third party. The risk is that the third party may not pay its obligation. While these exposures are short in duration, they can be significant. The risk is mitigated by dealing with highly rated counterparties, holding collateral and limiting the size of the exposures according to the risk rating of the counterparty.

c) Risk limit control and mitigation policies

The responsibility for credit risk management is enterprise-wide in scope. Strong risk management is integrated into daily processes, decision making and strategy setting, thereby making the understanding and management of credit risk the responsibility of every business segment.

The following business units within the Bank assist in the credit control process:

- Corporate Credit Unit.
- Credit Administration, Monitoring and Control Unit.
- Remedial Unit.
- Credit Policy Unit.
- Retail Credit Unit.

The monitoring and management of credit risk associated with these financing are made by setting approved credit limits. The Bank manages limits and controls concentrations of credit risk wherever they are identified - in particular, to individual customers and groups, and to industries and countries.

Concentrations of credit risks arise when a number of customers are engaged in similar business activities, activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risks indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location. The Bank seeks to manage its credit risk exposure through diversification of its financing to ensure there is no undue concentration of risks with to individuals or groups of customers in specific geographical locations or economic sectors.

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

c) Risk limit control and mitigation policies (continued)

The Bank manages credit risk by placing limits on the amount of risk accepted in relation to individual customers and groups, and to geographic and economic segments. Such risks are monitored on a regular basis and are subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, economic sector and by country are reviewed at least annually by the executive committee.

Exposure to credit risk is also managed through regular analysis on the ability of customers and potential customers to meet financial and contractual repayment obligations and by revising credit limits where appropriate.

Some other specific control and mitigation measures are outlined below:

c-1) Collateral

The Bank implements guidelines on the level and quality of specific classes of collateral, The principal collateral types are:

- Mortgages over residential and commercial properties.
- Cash, shares, and general assets for customer.
- Shares for Murabaha (collateralized share trading) transactions.

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as traditional banking products of the Bank.

Documentary and commercial letters of credit - which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying goods to which they relate, and therefore, risk is partially mitigated.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of further financing products, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

d) Impairment and provisioning policies

The table below sets out the maximum exposure to credit risk at the reporting date without considering collateral or other credit enhancements and includes the off-balance sheet financial instruments involving credit risks as at 31 December:

	(SAR'000)	
On-balance sheet items	**2020**	2019
Investments, net:		
Murabaha with Saudi Government and SAMA	**22,904,021**	24,991,978
Sukuk	**28,406,417**	18,751,109
Structured Products	**1,000,000**	-
Due from banks and other financial institutions	**28,654,842**	32,058,182
Financing, net		
Corporate	**65,052,746**	62,959,778
Retail	**250,659,355**	186,723,027
Other finaincal assets		
Receivables, net	**1,613,343**	-
Total on-balance sheet items	**398,290,724**	325,484,074
Off-balance sheet items:		
Letters of credit and acceptances	**3,050,200**	1,215,904
Letters of guarantee	**5,443,189**	4,973,200
Irrevocable commitments to extend credit	**10,662,701**	11,636,094
Total off-balance sheet items	**19,156,090**	17,825,198
Maximum exposure to credit risk	**417,446,814**	343,309,272

The exposures set out above are based on net carrying amounts as reported in the consolidated statement of financial position.

27-2 Liquidity risks

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay deposits and financing parties and fulfill financing commitments. Liquidity risk can be caused by market disruptions or by credit downgrades, which may cause certain sources of funding to become unavailable immediately. Diverse funding sources available to the Bank help mitigate this risk. Assets are managed with liquidity in mind, maintaining a conservative balance of cash and cash equivalents.

Liquidity risk management process

The Bank's liquidity management process is as monitored by the Bank's Asset and Liabilities Committee (ALCO), and includes:

- Day-to-day funding, managed by Treasury to ensure that requirements can be met, and this includes replenishment of funds as they mature or are invested;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements;
- Managing the concentration and profile of debt maturities;
- Maintaining diversified funding sources; and
- Liquidity management and asset and liability mismatching.

Monitoring and reporting take the form of analyzing cash flows of items with both contractual and non-contractual maturities. The net cash flows are measured to ensure that they are within acceptable ranges. The Treasury / ALCO also monitors the level and type of undrawn lending commitments, usage of overdraft facilities and the potential impact of contingent liabilities such as standby letters of credit and guarantees may have on the Bank's liquidity position.

27. FINANCIAL RISK MANAGEMENT (continued)

27-2 Liquidity risks (continued)

The tables below summarizes the maturity profile of the Bank's assets and liabilities, on the basis of the remaining maturity as of the consolidated statement of financial position date to the contractual maturity date.

Management monitors the maturity profile to ensure that adequate liquidity is maintained. Assets available to meet liabilities and to cover outstanding financing commitments include cash, balances with SAMA and due from banks. Further, in accordance with the Banking Control Law and Regulations issued by SAMA, the Bank maintains a statutory deposit equal to a sum not less than 7% of total customers' deposits, and 4% of total other customers' accounts. In addition to the statutory deposit, the Bank maintains a liquid reserve of not less than 20% of the deposit liabilities, in the form of cash, gold or assets which can be converted into cash within a period not exceeding 30 days. Also, the Bank has the ability to raise additional funds through special financing arrangements with SAMA including deferred sales transactions.

The contractual maturities of financial assets and liabilities as of 31 December based on discounted cash flows are as follows. The table below reflects the expected cash flows indicated by the deposit retention history of the Group. Management monitors a rolling forecast of the Group's liquidity position and cash and cash equivalents on the basis of expected cash flows. This is carried out in accordance with practice and limits set by the Group and based on the pattern of historical deposit movements. In addition, the Group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

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27. FINANCIAL RISK MANAGEMENT (continued)

27-2 Liquidity risks (continued)

2020	(SAR'000)					
	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	No Fixed Maturity	Total
Assets						
Cash and balance with SAMA and other central banks	16,235,549	-	-	-	31,126,973	47,362,522
Due from banks and other financial institutions	8,924,380	6,519,752	11,951,076	-	1,259,634	28,654,842
Financing, net						
Mutajara	14,385,991	9,205,279	11,161,268	2,478,796	-	37,231,334
Installment sale	14,550,254	31,842,841	115,670,114	93,416,307	-	255,479,516
Murabaha	1,233,638	2,760,214	4,281,018	11,395,223	-	19,670,093
Credit cards	1,409,529	823,202	1,096,299	2,128	-	3,331,158
Investments, net						
Investment in an associate	-	-	-	-	239,179	239,179
Investments held at amortized cost	488,781	-	18,408,177	30,220,553	-	49,117,511
FVSI investments	-	-	1,502,525	2,588,595	2,545,864	6,636,984
FVOCI investments	-	-	-	-	4,291,598	4,291,598
Other assets, net	-	-	-	-	16,809,986	16,809,986
Total	57,228,122	51,151,288	164,070,477	140,101,602	56,273,234	468,824,723
Liabilities						
Due to banks and other financial institutions	1,208,109	5,459,613	3,648,051	-	448,288	10,764,061
Demand deposits	-	-	-	-	327,572,511	327,572,511
Customers' time investments	29,729,360	13,278,009	9,913	-	-	43,017,282
Other customer accounts	1,611,253	2,135,266	2,398,659	-	5,896,032	12,041,210
Other liabilities	-	-	-	-	17,311,141	17,311,141
Total Liabilities	32,548,722	20,872,888	6,056,623	-	351,227,972	410,706,205
Gap	24,679,400	30,278,400	158,013,854	140,101,602	(294,954,738)	58,118,518

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27. FINANCIAL RISK MANAGEMENT (continued)

27-2 Liquidity risks (continued)

2019	(SAR'000)					
	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	No Fixed Maturity	Total
Assets						
Cash and balance with SAMA and other central banks	10,855,000	-	-	-	28,439,099	39,294,099
Due from banks and other financial institutions	11,494,160	6,575,839	13,988,183	-	-	32,058,182
Financing, net						
Mutajara	13,875,181	11,750,437	12,908,065	3,043,561	-	41,577,244
Installment sale	12,151,486	29,194,865	97,755,730	48,621,920	-	187,724,001
Murabaha	3,771,541	4,221,613	3,878,893	5,356,019	-	17,228,066
Credit cards	1,447,050	731,273	975,171	-	-	3,153,494
Investments, net						
Investment in an associate	-	-	-	-	196,235	196,235
Investments held at amortized cost	2,566,987	-	16,089,945	24,286,155	-	42,943,087
FVSI investments	-	-	800,000	-	1,230,711	2,030,711
FVOCI investments	-	-	-	-	1,672,597	1,672,597
Other assets, net	-	-	-	-	16,208,860	16,208,860
Total	56,161,405	52,474,027	146,395,987	81,307,655	47,747,502	384,086,576
Liabilities						
Due to banks and other financial institutions	1,885,035	-	-	-	334,569	2,219,604
Demand deposits	-	-	-	-	284,299,851	284,299,851
Customers' time investments	17,095,711	4,578,411	450,331	1,773	-	22,126,226
Other customer accounts	1,569,561	2,072,232	2,337,953	-	-	5,979,746
Other liabilities	-	-	-	-	18,269,492	18,269,492
Total	20,550,307	6,650,643	2,788,284	1,773	302,903,912	332,894,919
Gap	35,611,098	45,823,384	143,607,703	81,305,882	(255,156,410)	51,191,657

The following tables disclose the maturity of contractual financial liabilities on undiscounted cash flows as at 31 December:

2020	**(SAR'000)**					
	Less than 3 months	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Due to banks and other financial institutions	**1,224,402**	**5,533,239**	**3,697,247**	**-**	**454,333**	**10,909,221**
Customer deposits	**31,347,940**	**15,416,547**	**2,408,574**	**-**	**333,468,543**	**382,641,604**
Other liabilities	**-**	**-**	**-**	**-**	**17,311,141**	**17,311,141**
Total	**32,572,342**	**20,949,786**	**6,105,821**	**-**	**351,234,017**	**410,861,966**

The cumulative maturities of commitments and contingencies are given in note 16-c-1 of the consolidated financial statements.

27. FINANCIAL RISK MANAGEMENT (continued)

27-2 Liquidity risks (continued)

2019	(SAR'000)					
	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Due to banks and other financial institutions	2,342,000	-	-	-	334,569	2,676,569
Customers' deposits	19,293,271	6,891,825	2,821,521	1,773	284,299,851	313,308,241
Other liabilities	-	-	-	-	18,269,492	18,269,492
Total	21,635,271	6,891,825	2,821,521	1,773	302,903,912	334,254,302

The cumulative maturities of commitments and contingencies are given in note 16-c-1 of the consolidated financial statements.

27-3 Market risks

The Bank is exposed to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risks arise on profit rate products, foreign currency and mutual fund products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as profit rates, foreign exchange rates and quoted market prices.

Market risk exposures are monitored by Treasury / Credit & Risk department and reported to ALCO on a monthly basis. ALCO deliberates on the risks taken and ensures that they are appropriate.

a. Market risks - speculative operations

The Bank is not exposed to market risks from speculative operations. The Bank is committed to Sharia guidelines which do not permit it to enter into contracts or speculative instruments such as hedging, options, forward contracts and derivatives.

b. Market risks - banking operations

- **Profit rate risk**

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

Commission rate risk arises from the possibility that the changes in profit rates will affect either the fair values or the future cash flows of the financial instruments. The Board has established commission rate gap limits for stipulated periods. The Bank monitors positions daily and uses gap management strategies to ensure maintenance of positions within the established gap limits.

27. FINANCIAL RISK MANAGEMENT (continued)

27-3 Market risks (continued)

b. Market risks - banking operations (continued)
- **Profit rate risk (continued)**

The following table depicts the sensitivity to a reasonably possible change in profit rates, with other variables held constant, on the Bank's consolidated statement of income or shareholders' equity. The sensitivity of the income is the effect of the assumed changes in profit rates on the net income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at 31 December 2020 and 2019. The sensitivity of consolidated shareholders' equity is the same as sensitivity of consolidated income since the Bank does not have fixed rate FVOCI financial assets as at 31 December 2020 and 2019. All the banking book exposures are monitored and analyzed in currency concentrations, and relevant sensitivities are disclosed in SAR million.

2020		**SAR in Million**			
Currency	**Increase in basis points**	**Sensitivity of gross financing and investment income**			
		As at 31 December	Average	Maximum	Minimum
SAR	+25	**255**	**244**	**255**	**229**

Currency	**Decrease in basis points**	**Sensitivity of gross financing and investment income**			
		As at 31 December	Average	Maximum	Minimum
SAR	-25	**(255)**	**(244)**	**(255)**	**(229)**

2019		SAR in Million			
Currency	Increase in basis points	Sensitivity of gross financing and investment income			
		As at 31 December	Average	Maximum	Minimum
SAR	+25	241	235	244	227

Currency	Decrease in basis points	Sensitivity of gross financing and investment income			
		As at 31 December	Average	Maximum	Minimum
SAR	-25	(241)	(235)	(244)	(227)

Profit rate movements affect reported consolidated shareholders'equity through retained earnings, i.e. increases or decreases in financing and investment income.

Commission sensitivity of assets, liabilities and off balance sheet items:

The Bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market profit rates on its financial position and cash flows.

The Board sets limits on the level of mismatch of commission rate repricing that may be undertaken, which is monitored daily by Bank Treasury.

The table below summarizes the Bank's exposure to profit rate risks. Included in the table are the Bank's financial instruments at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

The Bank is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or re-price in a given period. The Bank manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

27. FINANCIAL RISK MANAGEMENT (continued)
27-3 Market risks (continued)
b. Market risks - banking operations (continued)
- **Profit rate risk (continued)**

Commission sensitivity of assets, liabilities and off balance sheet items (continued)

31 December 2020	(SAR'000)						
	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Non Commission Sensitive	Total
Assets							
Cash and balance with SAMA and other central banks	16,235,549	-	-	-	-	31,126,973	47,362,522
Due from banks and other financial institutions	10,131,068	2,902,451	2,410,613	11,951,076	-	1,259,634	28,654,842
Investments, net							
Investment in an associate	-	-	-	-	-	239,179	239,179
Investments held at amortized cost	22,355,265	2,005,632	-	15,545,908	9,210,706	-	49,117,511
FVSI investments	-	2,588,595	-	1,502,525	-	2,545,864	6,636,984
FVOCI investments	-	604,332	-	-	-	3,687,266	4,291,598
Financing, net							
Mutajara	16,174,148	11,265,923	3,283,366	5,343,271	1,164,626	-	37,231,334
Installment sale	21,730,136	13,139,501	22,689,661	117,297,161	80,623,057	-	255,479,516
Murabaha	10,302,648	8,213,185	35,286	282,279	836,695	-	19,670,093
Credit cards	1,409,504	274,410	548,817	1,096,299	2,128	-	3,331,158
Other assets	-	-	-	-	-	16,809,986	16,809,986
Total Assets	98,338,318	40,994,029	28,967,743	153,018,519	91,837,212	55,668,902	468,824,723
Liabilities							
Due to banks and other financial institutions	2,027,236	4,891,925	649,025	2,747,587	-	448,288	10,764,061
Customer deposits	-	-	-	-	-	327,572,511	327,572,511
Customers' time investments	29,729,361	9,015,881	4,262,127	9,913	-	-	43,017,282
Other customer accounts	5,896,032	-	-	-	-	6,145,178	12,041,210
Other liabilities	-	-	-	-	-	17,311,141	17,311,141
Total liabilities	37,652,629	13,907,806	4,911,152	2,757,500	-	351,477,118	410,706,205
Gap	60,685,690	27,086,223	24,056,591	150,261,019	91,837,211	(295,808,216)	58,118,518
Profit Rate Sensitivity – On consolidated statement of financial position	60,685,690	27,086,223	24,056,591	150,261,019	91,837,211	(295,808,216)	58,118,518
Profit Rate Sensitivity - Off consolidated statement of financial Position	86,891	136,217	134,359	33,212	934	-	391,613
Total Profit Rate Sensitivity Gap	60,598,799	26,950,006	23,922,231	150,227,807	91,836,278	(295,808,216)	57,726,905
Cumulative Profit Rate Sensitivity Gap	60,598,799	87,548,805	111,471,036	261,698,844	353,535,121	57,726,905	57,726,905

27. FINANCIAL RISK MANAGEMENT (continued)
27-3 Market risks (continued)
b. Market risks - banking operations (continued)
- **Profit rate risk (continued)**

Commission sensitivity of assets, liabilities and off balance sheet items (continued)

31 December 2019 (SAR'000)	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Non Commission Sensitive	Total
Assets							
Cash and balance with SAMA and other central banks	10,854,472	-	-	-	-	28,439,627	39,294,099
Due from banks and other financial institutions	10,479,978	357,348	6,543,435	14,677,421	-	-	32,058,182
Investments, net							
Investment in an associate	-	-	-	-	-	196,235	196,235
Investments held at amortized cost	26,001,235	1,252,000	-	-	13,956,318	1,733,534	42,943,087
Investments held as FVSI	-	800,000	-	-	-	1,230,711	2,030,711
FVOCI investments	-	-	-	-	-	1,672,597	1,672,597
Financing, net							
Mutajara	16,244,991	14,699,701	4,218,431	4,609,125	1,804,996	-	41,577,244
Installment sale	18,271,988	16,132,170	20,059,435	93,604,177	39,656,231	-	187,724,001
Murabaha	7,598,931	5,290,277	23,372	3,217,328	1,098,158	-	17,228,066
Credit cards	1,447,050	243,758	487,515	975,171	-	-	3,153,494
Other assets	-	-	-	-	-	16,208,860	16,208,860
Total Assets	90,898,645	38,775,254	31,332,188	117,083,222	56,515,703	49,481,564	384,086,576
Liabilities							
Due to banks and other financial institutions	1,677,579	-	-	-	-	542,025	2,219,604
Customer deposits	-	-	-	-	-	284,299,851	284,299,851
Customers' time investments	17,102,278	3,001,418	1,577,663	444,867	-	-	22,126,226
Other customer accounts	-	-	-	-	-	5,979,746	5,979,746
Other liabilities	-	-	-	-	-	18,269,492	18,269,492
Total liabilities	18,779,857	3,001,418	1,577,663	444,867	-	309,091,114	332,894,919
Gap	72,118,788	35,773,836	29,754,525	116,638,355	56,515,703	(259,609,550)	51,191,657
Profit Rate Sensitivity - On Consolidated Statement of Financial Positions	72,118,788	35,773,836	29,754,525	116,638,355	56,515,703	(259,609,550)	51,191,657
Profit Rate Sensitivity - Off Consolidated Statement of Financial Positions	167,512	24,528	70,934	66,574	5,697	-	335,245
Total Profit Rate Sensitivity Gap	71,951,276	35,749,308	29,683,591	116,571,781	56,510,006	(259,609,550)	50,856,412
Cumulative Profit Rate Sensitivity Gap	71,951,276	107,700,584	137,384,175	253,955,956	310,465,962	50,856,412	50,856,412

27. FINANCIAL RISK MANAGEMENT (continued)
27-3 Market risks (continued)
b. Market risks - banking operations (continued)

- **Foreign currency risks**

The tables below summarize the Bank's exposure to foreign currency exchange rate risk at 31 December 2020 and 2019 and the concentration of currency risks, Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency:

	(SAR'000)							
2020	**UAE Dirham**	**Japanese Yen**	**Euro**	**Malaysian Ringgit**	**US Dollar**	**Pound Sterling**	**Other**	**Total**
ASSETS								
Cash and cash equivalents	**44,180**	**-**	**29,595**	**38,086**	**350,388**	**23,183**	**486,520**	**971,952**
Due from banks and other financial institutions	**55,513**	**5,940**	**183,332**	**399,012**	**3,524,878**	**27,772**	**468,221**	**4,664,668**
Financing, net	**-**	**-**	**-**	**4,751,305**	**7,567,866**	**-**	**4,962,823**	**17,281,994**
Investments, net	**-**	**-**	**402**	**1,311,663**	**5,886,959**	**-**	**258,697**	**7,457,721**
Fixed assets	**2,421**	**-**	**10,392**	**53,882**	**473,445**	**3,282**	**45,887**	**589,309**
Other assets, net	**2**	**-**	**2,218**	**52,053**	**349,542**	**991**	**24,635**	**429,441**
Total Assets	**102,116**	**5,940**	**225,939**	**6,606,001**	**18,153,078**	**55,228**	**6,246,783**	**31,395,085**
LIABILITIES								
Due to banks and other financial institutions	**71**	**-**	**17,852**	**298,106**	**1,473,317**	**190**	**(77,328)**	**1,712,208**
Customers' deposits	**16,993**	**5,203**	**117,125**	**5,246,529**	**6,595,424**	**50,363**	**5,345,852**	**17,377,489**
Other liabilities	**5,026**	**745**	**130,684**	**93,769**	**847,993**	**7,082**	**231,059**	**1,316,358**
Total Liabilities	**22,090**	**5,948**	**265,661**	**5,638,404**	**8,916,734**	**57,635**	**5,499,583**	**20,406,055**
Net	**80,026**	**(8)**	**(39,722)**	**967,597**	**9,236,344**	**(2,407)**	**747,200**	**10,989,030**

	(SAR'000)							
2019	UAE Dirham	Japanese Yen	Euro	Malaysian Ringgit	US Dollar	Pound Sterling	Other	Total
ASSETS								
Cash and cash equivalents	34,104	-	31,868	153,650	335,903	21,963	608,879	1,186,367
Due from banks and other financial institutions	63,357	7,508	197,512	518,468	3,120,698	24,183	102,570	4,034,296
Financing, net	-	-	-	4,846,668	5,531,037	-	4,504,063	14,881,768
Investments, net	-	-	367	894,904	2,007,106	-	255,369	3,157,746
Fixed assets	2,229	-	9,528	65,199	392,337	1,024	54,232	524,549
Other assets, net	-	-	1,889	171,338	74,963	831	21,534	270,555
Total Assets	99,690	7,508	241,164	6,650,227	11,462,044	48,001	5,546,647	24,055,281
LIABILITIES								
Due to banks and other financial institutions	193	-	61,892	129,399	375,153	17	(622,790)	(56,136)
Customers' deposits	8,861	5,013	114,609	5,429,591	3,153,602	40,639	5,083,655	13,835,970
Other liabilities	4,369	707	110,713	103,126	740,687	9,023	237,542	1,206,167
Total Liabilities	13,423	5,720	287,214	5,662,116	4,269,442	49,679	4,698,407	14,986,001
Net	86,267	1,788	(46,050)	988,111	7,192,602	(1,678)	848,240	9,069,280

27. FINANCIAL RISK MANAGEMENT (continued)

27-3 Market risks (continued)

b. Market risks - banking operations (continued)

- **Foreign currency risks (continued)**

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Bank management has set limits on positions by currencies, which are regularly monitored to ensure that positions are maintained within the limits.

The table below shows the currencies to which the Bank has a significant exposure as at 31 December 2020 and 2019, on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonably possible movements of the currency rate against SAR, with all other variables held constant, on the consolidated statement of income (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity. A positive effect shows a potential increase in the consolidated statement of income or consolidated shareholders' equity, whereas a negative effect shows a potential net reduction in the consolidated statement of income or consolidated statement of changes in shareholders' equity.

(SAR in '000)

Currency Exposures As at 31 December 2020	**Change in Currency Rate in %**	**Effect on Net Income**	**Effect on Equity**
AED	**+/-2**	**1,601**	**1,601**
USD	**+/-2**	**184,727**	**184,727**
EUR	**+/-5**	**(1,986)**	**(1,986)**
INR	**+/-5**	**4,567**	**4,567**
PKR	**+/-5**	**3,518**	**3,518**

(SAR in '000)

Currency Exposures As at 31 December 2019	Change in Currency Rate in %	Effect on Net Income	Effect on Equity
AED	+/-2	1,725	1,725
USD	+/-2	143,852	143,852
EUR	+/-5	(2,303)	(2,303)
INR	+/-5	(227)	(227)
PKR	+/-5	249	249

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27. FINANCIAL RISK MANAGEMENT (continued)

27-3 Market risks (continued)

b. Market risks - banking operations (continued)

- **Foreign currency risks (continued)**

Currency position
The Bank manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. At the end of the year, the Bank had the following significant net exposures denominated in foreign currencies:

	2020 SAR '000 Long/(short)	2019 SAR '000 Long/(short)
US Dollar	**9,236,344**	7,192,602
Japanese Yen	**(8)**	1,788
Euro	**(39,722)**	(46,050)
Pound Sterling	**(2,407)**	(1,678)
UAE Dirham	**80,026**	86,267
Malaysian Ringgit	**967,597**	988,111
Others	**747,200**	848,240
Total	**10,989,030**	9,069,280

c. Price risk

The Bank has certain investments which are carried at fair value through the income statement (FVSI) and fair value through other comprehensive income (FVOCI). Price risk arises due to changes in these investments.

As these investments are in a limited number of funds and are not significant to the total investment portfolio, the Bank monitors them periodically and determines the risk of holding them based on changes in market prices.

Other investments have little or no risks as these are bought for immediate sales. Investments are made only with a confirmed sale order, and therefore involve minimal risk.

- **Equity Price Risk**

Equity risk refers to the risk of decrease in fair values of equities in the Bank's non-trading investment portfolio as a result of reasonably possible changes in levels of equity indices and the value of individual stocks.

The effect on the Bank's equity investments held as FVOCI due to reasonably possible changes in equity indices, with all other variables held constant, as at 31 December is as follows:

	2020		2019	
Local Market Indices	**Change in Equity price %**	**Effect in SAR Million**	Change in Equity price %	Effect in SAR Million
Local Share Equities	**+ /- 10**	**+/-341,957**	+ /- 10	+/- 164,824

27. FINANCIAL RISK MANAGEMENT (continued)

27-3 Market risks (continued)

d. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems, and external events.

Operational risk is inherent in most of the Bank's activities. This necessitates an integrated approach to the identification, measurement and monitoring of operational risk.

An Operational Risk Management Unit (ORMU) has been established within the Credit and Risk Management Group, which facilitates the management of Operational Risk within the Bank. ORMU facilitates the management of Operational Risk by setting policies, developing systems, tools and methodologies, overseeing their implementation and use within the business units and providing ongoing monitoring and guidance across the Bank.

The three primary operational risk management processes in the Bank are Risk Control Self Assessment, Operational Loss Database and eventual implementation of Key Risk Indicators which are designed to function in a mutually reinforcing manner.

28. GEOGRAPHICAL CONCENTRATION

a) The distribution by the geographical region of the major categories of assets, liabilities, commitments, contingencies and credit exposure accounts as of 31 December is as follows:

2020	(SAR'000)						
	Kingdom of Saudi Arabia	**Other GCC and Middle East**	**Europe**	**North America**	**South East Asia**	**Other Countries**	**Total**
Assets							
Cash and balances with SAMA and other central banks	47,297,397	48,505	-	-	16,620	-	47,362,522
Due from banks and other financial institutions	10,606,664	16,518,568	63,202	157,458	997,102	311,848	28,654,842
Financing, net							
Mutajara	37,230,349	592	393	-	-	-	37,231,334
Installment sale	251,269,430	2,947,323	-	-	1,262,763	-	255,479,516
Murabaha	14,173,176	2,381,816	-	-	3,115,101	-	19,670,093
Credit cards	3,324,868	6,143	-	-	147	-	3,331,158
Investments, net							
Investment in an associate	239,179	-	-	-	-	-	239,179
Investments held at amortized cost	44,933,282	1,808,802	1,280,580	-	676,671	-	48,699,335
FVSI Investments	6,949,685	190,843	-	-	-	-	7,140,528
FVOCI investments	3,580,589	21,309	-	-	604,332	-	4,206,230
Total assets	419,604,619	23,923,901	1,344,175	157,458	6,672,736	311,848	452,014,737
Liabilities							
Due to banks and other financial institutions	10,049,256	20,448	-	435,859	258,498	-	10,764,061
Customer deposits	365,253,514	8,578,469	22,799	452	8,769,155	6,615	382,631,004
Total liabilities	375,302,770	8,598,917	22,799	436,311	9,027,653	6,615	393,395,065
Commitments and contingencies	13,585,335	1,161,669	272,045	16,508	3,773,101	347,432	19,156,090
Credit exposure (stated at credit equivalent value)	8,336,590	-	-	-	2,326,111	-	10,662,701

28. GEOGRAPHICAL CONCENTRATION (continued)

2019	(SAR'000)						
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other Countries	Total
Assets							
Cash and balances with SAMA and other central banks	39,206,336	69,209	-	-	18,554	-	39,294,099
Due from banks and other financial institutions	8,801,478	19,134,342	2,358,919	151,310	845,040	767,093	32,058,182
Financing, net							
Mutajara	39,958,043	1,098,898	520,303	-	-	-	41,577,244
Installment sale	184,182,295	2,300,310	-	-	1,241,396	-	187,724,001
Murabaha	12,244,295	2,131,177	-	-	2,852,594	-	17,228,066
Credit cards	3,146,501	6,993	-	-	-	-	3,153,494
Investments, net							
Investment in an associate	196,235	-	-	-	-	-	196,235
Investments held at amortized cost	41,814,230	592,232	-	-	536,625	-	42,943,087
FVSI Investments	2,017,302	13,042	367	-	-	-	2,030,711
FVOCI investments	1,651,323	21,274	-	-	-	-	1,672,597
Total assets	331,620,850	26,465,805	2,879,589	151,310	5,993,069	767,093	367,877,716
Liabilities							
Due to banks and other financial institutions	1,338,054	470,707	-	384,922	25,921	-	2,219,604
Customer deposits	298,569,853	6,865,823	17,726	4,544	6,929,758	18,120	312,405,824
Total Liabilities	299,907,907	7,336,530	17,726	389,466	6,955,679	18,120	314,625,428
Commitments and contingencies	16,455,181	633,737	99,182	94,220	421,820	121,058	17,825,198
Credit exposure (stated at credit equivalent value)	9,727,912	-	-	-	1,908,182	-	11,636,094

28. GEOGRAPHICAL CONCENTRATION (continued)

b) The distributions by geographical concentration of non-performing financing and allowance for impairment of financing are as follows:

2020	**(SAR'000)**			
	Kingdom of Saudi Arabia	**GCC and Middle East**	**South East of Asia**	**Total**
Non-performing				
Mutajara	**1,647,511**	**5,423**	**37,929**	**1,690,865**
Installment sale	**690,942**	**25,559**	**11,900**	**728,401**
Murabaha	**-**	**-**	**-**	**-**
Credit cards	**25,848**	**-**	**-**	**25,848**
Allowance for impairment of financing				
Mutajara	**(2,929,580)**	**(12,570)**	**(53,744)**	**(2,995,894)**
Installment sale	**(4,289,808)**	**(62,293)**	**(46,822)**	**(4,398,923)**
Murabaha	**(55,734)**	**-**	**-**	**(55,734)**
Credit cards	**(20,805)**	**-**	**-**	**(20,805)**

2019	(SAR'000)			
	Kingdom of Saudi Arabia	GCC and Middle East	South East of Asia	Total
Non-performing				
Mutajara	1,642,684	5,420	38,970	1,687,074
Installment sale	538,829	24,736	18,412	581,977
Murabaha	-	-	-	-
Credit cards	47,742	-	-	47,742
Allowance for impairment of financing				
Mutajara	(1,285,340)	(1,088)	(19,427)	(1,305,855)
Installment sale	(522,160)	(7,734)	(497)	(530,391)
Murabaha	(144,794)	-	(10,751)	(155,545)
Credit cards	(9,083)	-	(287)	(9,370)

Refer to Note 7-1a for performing financing.

29. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

Level 1: quoted prices in active markets for the same instrument (i.e. without modification or additions).

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

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

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

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

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29. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

Carrying amounts and fair value:

The following table shows the carrying amounts and fair values of financial assets and financial liabilities as at 31 December, including their levels in the fair value hierarchy (refer note 2d (ii)). It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

2020	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets					
Financial assets measured at fair value					
FVSI Investments – Mutual funds	2,545,864	-	2,291,749	254,115	2,545,864
FVOCI equity investments	3,687,266	3,662,877	-	24,389	3,687,266
FVSI Sukuk	2,588,595	-	2,588,595	-	2,588,595
FVOCI Sukuk	604,332	-	604,332	-	604,332
Structure Products	1,502,525	-	-	1,502,525	1,502,525
Financial assets not measured at fair value					
Due from banks and other financial institutions	28,654,842	-	-	29,128,159	29,128,159
Investments held at amortized cost					
- Murabaha with Saudi Government and SAMA	22,904,021	-	-	23,226,882	23,226,882
- Sukuk	25,240,452		24,143,625	2,012,090	26,155,715
- Structured Products	1,000,000	-	-	1,048,310	1,048,310
Gross Financing	323,183,457	-	-	331,028,641	331,028,641
Total	411,911,354	3,662,877	29,628,301	388,225,111	421,516,289
Financial liabilities					
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	10,764,061	-	-	10,909,221	10,909,221
Customers' deposits	382,631,003	-	-	382,641,604	382,641,604
Total	393,395,064	-	-	393,550,825	393,550,825

29. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

Carrying amounts and fair value (continued):

2019	(SAR'000)				
Financial assets	Carrying value	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
FVSI Investments – Mutual funds	1,230,711	-	1,230,711	-	1,230,711
FVOCI equity investments	1,672,597	1,648,243	-	24,355	1,672,598
FVSI Sukuk	800,000	-	-	800,000	800,000
Financial assets not measured at fair value					
Due from banks and other financial institutions	32,058,182	-	-	32,300,842	32,300,842
Investments held at amortized cost					
- Murabaha with Saudi Government and SAMA	24,991,978	-	-	25,268,177	25,268,177
- Sukuk	17,973,379	-	185,625	18,171,963	18,357,588
Gross Financing	256,702,401	-	-	275,942,492	275,942,492
Total	335,429,248	1,648,243	1,416,336	352,507,829	355,572,408
Financial liabilities					
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	2,219,604	-	-	2,219,642	2,219,642
Customers' deposits	312,405,823	-	-	312,405,823	312,405,823
Total	314,625,427	-	-	314,625,465	314,625,465

FVSI investments classified as level 2 include mutual funds, the fair value of which is determined based on the latest reported net assets value (NAV) as at the date of statement of consolidated financial position.

The level 3 financial assets measured at fair value represent investments recorded at cost. The carrying value of these investments approximates fair value.

Gross financing classified as level 3 has been valued using expected cash flows discounted at relevant current effective profit rate. Investments held at amortized cost, due to / from banks and other financial institutions have been valued using the actual cash flows discounted at relevant SIBOR/ SAMA murabaha rates.

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

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

30. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank transacts business with related parties. The related party transactions are governed by limits set by the Banking Control Law and the regulations issued by SAMA. The nature and balances resulting from such transactions as at and for the year ended 31 December are as follows:

	(SAR'000)	
Related parties	**2020**	2019
Members of the Board of Directors		
Mutajara	**59,321**	67,680
Contingent liabilities (*)	**-**	20
Current accounts	**242,323**	320,085
Companies and establishments guaranteed by members of the Board of Directors		
Mutajara	**10,222,874**	7,244,210
Contingent liabilities (*)	**3,664,052**	877,158
Associate		
Contributions receivable	**321,512**	142,152
Payable against claims	**169,437**	194,312
Bank balances	**188,276**	332,713

(*) = off balance sheet items.

Income and expenses pertaining to transactions with related parties included in the consolidated financial statements for the years ended 31 December are as follows:

	(SAR'000)	
	2020	2019
Income from financing and other financial assets	**32,141**	135,422
Mudaraba Fees	**72,689**	79,316
Employees' salaries and benefits (air tickets)	**795**	4,297
Rent and premises related expenses	**6,826**	5,521
Contribution – policies written	**721,077**	861,880
Claims incurred and notified during the period	**440,395**	662,212
Claims paid	**465,270**	615,901
Board of Directors' remunerations	**6,009**	6,140

The amounts of compensations recorded in favor of or paid to the Board of Directors and the executive management personnel during the years ended 31 December are as follows:

	(SAR'000)	
	2020	2019
Short-term benefits	**107,097**	99,533
Provision for employees' end of service benefits	**10,687**	10,669

The executive management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

31. MUDARABA FUNDS

Mudaraba funds comprise the following as at 31 December:

	(SAR'000)	
	2020	2019
Customers' Mudaraba and investments	**29,216,806**	23,255,708
Total	**29,216,806**	23,255,708

Mudaraba and investments accounts represents customers' investment portfolio managed by Al Rajhi Capital Company and are considered as off balance sheet. Consistent with the accounting policies of the Group, such balances are not included in the consolidated financial statements as these are held by the Group in a fiduciary capacity.

32. SPECIAL COMMISSIONS EXCLUDED FROM THE CONSOLIDATED STATEMENT OF INCOME

The following represents the movements in charities account, which is included in other liabilities (see note 13) for the year ended 31 December:

	(SAR'000)	
	2020	2019
Balance at beginning of the year	**10,994**	56,350
Additions during the year	**11,745**	52,691
Payments made during the year	**(13,854)**	(98,047)
Balance at end of the year	**8,885**	10,994

33. INVESTMENT MANAGEMENT SERVICES

The Group offers investment services to its customers. The Group has established a number of Mudaraba funds in different investment aspects. These funds are managed by the Group's Investment Department, and a portion of the funds is also invested in participation with the Group. The Group also offers investment management services to its customers through its subsidiary, which include management of funds with total assets under management of SAR 50,220 million (2019: SAR 42,084 million). The mutual funds are not controlled by the Group and neither are under significant influence to be considered as associates / subsidiaries. Mutual funds' financial statements are not included in the consolidated financial statements of the Group. The Group's share of investments in these funds is included under investments, and is disclosed under related party transactions. Funds invested by the Group in those investment funds amounted to SAR 1,166 million at 31 December 2020 (2019: SAR 981 million).

34. CAPITAL ADEQUACY

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

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management. SAMA requires the banks to hold the minimum level of the regulatory capital and also to maintain a ratio of total regulatory capital to the risk-weighted assets at or above 8%.

34. CAPITAL ADEQUACY (continued)

The Bank monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Bank's eligible capital with its consolidated statement of financial position, commitments and contingencies, to reflect their relative risk as of 31 December:

	(SAR'000)	
	2020	2019
Credit risk weighted assets	**280,373,990**	234,299,968
Operational risk weighted assets	**33,318,660**	30,784,119
Market risk weighted assets	**9,316,353**	7,236,637
Total Pillar I - risk weighted assets	**323,009,003**	272,320,724

	(SAR'000)	
	2020	2019
Tier I – capital	**58,118,518**	51,191,657
Tier II capital	**3,504,675**	2,928,750
Total tier I & II capital	**61,623,193**	54,120,407
Capital Adequacy Ratio %		
Tier I ratio	**17.99%**	18.80%
Tier I and II ratio	**19.08%**	19.87%

35. DERIVATIVE FINANCIAL INSTRUMENTS

The table below summarises the positive and negative fair values of derivative financial instruments, together with the notional amounts. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the period-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 market risk.

				Notional amounts by term to maturity			
Derivative financial instruments 31 December 2020	**Positive fair value**	**Negative fair value**	**Notional amount Total**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**
			(SAR'000)				
Held for trading:							
Profit rate swaps	**30,460**	**(22,157)**	**9,127,752**	**-**	**-**	**5,438,733**	**3,689,019**
Foreign exchange forward contracts	**2,151**	**(1,889)**	**1,353,546**	**786,539**	**567,006**	**-**	**-**

36. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The new and amended standards and interpretations that are issued as listed below, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group is currently assessing the impact of these standards on the future financial statements and intends to adopt these new and amended standards, if applicable, when they become effective.

- IFRS 17 Insurance Contracts
- Reference to the Conceptual Framework – Amendments to IFRS 3
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

IFRS 17 Insurance Contracts
In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e. life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2022, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not expected to have a significant impact on the Group's consolidated financial statements.

Reference to the Conceptual Framework – Amendments to IFRS 3
In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2'gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.
The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

36. STANDARDS ISSUED BUT NOT YET EFFECTIVE (Continued)

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the Group.

37. ZAKAT

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

38. IMPACT OF COVID-19 AND SAMA PROGRAMS

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

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

In response to the impacts of COVID-19, various support programs have been offered to the customers either voluntarily by the Bank or on account of SAMA initiatives, such as customers eligible under Deferred Payments Program. The exercise of the deferment option by a customer, in its own, is not considered by the Bank as triggering SICR and as a consequence the impact on ECL for those customers were determined based on their existing staging. However, as part of the Bank's credit evaluation process, especially given the current economic situation due to after effects of lock down, the Bank obtained further information from the customers to understand their financial position and ability to repay the amount and in case where indicators of significant deterioration were noted, the customers' credit ratings and accordingly exposure staging were adjusted, where applicable.

38. IMPACT OF COVID-19 AND SAMA PROGRAMS (Continued)

Private Sector Financing Support Program ("PSFSP")

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

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

As part of the deferred payments program launched by SAMA, the Bank was required to defer payments for a total of nine months (original deferment for six months was followed on by a further extension of three months) on lending facilities to eligible MSMEs. The payment reliefs were considered as short-term liquidity support to address the borrower's potential cash flow issues. The Bank effected the payment reliefs by deferring the instalments falling due within the period from 14 March 2020 to 14 September for a period of six months and then further deferring the installments falling due within the period from 15 September 2020 to 14 December 2020 for a period of three months without increasing the facility tenure.

The accounting impact of these changes in terms of the credit facilities has been assessed and were treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in modification losses which have been presented as part of net financing income.

Further to the above, SAMA on 8 December 2020 extended the deferred payment program until March 31, 2021. The Bank has effected the payment reliefs by deferring the instalments falling due within the period from 15 December 2020 to 31 March 2021 without increasing the facility tenure. The accounting impact of these changes in terms of the credit facilities has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in the Bank recognizing an additional modification loss of SAR 49.6 million.

As a result of the above program and related extensions, the Bank has deferred the payments SAR 3.34 billion on MSMEs portfolio and accordingly, has recognized total modification losses of SAR 165.5 million during the year. The total exposures against these customers amounted to SAR 5.45 billion as at the year end.

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

The Bank continues to monitor the lending portfolios closely and reassess the provisioning levels as the situation around COVID-19 evolves; however, management has taken SAR 608 millions of overlays to reflect potential further credit deterioration.

The Bank has booked SAR 437.5 million incremental total ECL for the MSME portfolio having total exposure of SAR 3.96 billion.

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

38. IMPACT OF COVID-19 AND SAMA PROGRAMS (Continued)

In order to compensate the related cost that the Bank is expected to incur under the SAMA and other public authorities program, the Bank has received in aggregate SAR 3.65 billion of profit free deposits in a number of tranches from SAMA during the year ended 31 December 2020, with varying maturities. Management had determined based on the communication from SAMA, that the profit free deposits primarily relates to compensation for the modification loss incurred on the deferral of payments. The benefit of the subsidized funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. On 30th December 2020, SAMA has extended SAR 3.32 billion of the above-mentioned deposits for an additional 21 months from orginal maturities. This resulted in a total income of SAR 350.5 million, of which SAR 165.5 million has been recognized in the statement of income and SAR 185 million has been deferred. The management has exercised certain judgements in the recognition and measurement of this grant income. During the year ended 31 December 2020, SAR 22.9 million has been charged to the statement of income relating to unwinding of the day 1 income.

As at 31 December 2020, the Bank is yet to participate in SAMA's funding for lending or facility guarantee programs.

Furthermore, during the year ended 31 December 2020, the Bank has recognised reimbursement from SAMA for the forgone POS and e-commerce service fees amounting to SR 89 million.

SAMA liquidity support for the Saudi banking sector amounting to SAR 50 billion
In line with its monetary and financial stability mandate, SAMA injected an amount of fifty billion riyals in order to:

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

In this regard, during the year ended December 31, 2020, the Bank received SAR 5.2 billion profit free deposit with one-year maturity. Management has determined based on the communication received from SAMA, that this government grant primarily relates to liquidity support. The benefit of the subsidized funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in a total deferred income of SAR 56.9 million.

Bank's initiative - Health care sector support
In recognition of the significant efforts that our healthcare workers are putting in to safeguard the health of our citizens and residents in response to the COVID-19 outbreak, the Bank has decided to voluntarily postpone payments for all public and private health care workers who have credit facilities with the Bank for three months. This resulted in the Bank recognizing a day 1 modification loss of SAR 243.7 million during the year ended 31 December 2020, which was presented as part of net financing income. SAR 58.5 million has been recognized in the statement of income on unwinding of this modification loss during the year ended 31 December 2020.

39. APPROVAL OF THE BOARD OF DIRECTORS

The consolidated financial statements were approved by the Board of Directors on 26 Jumada Al Thani 1442H (corresponding to 8 February 2021).

AL RAJHI BANKING AND INVESTMENT CORPORATION
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
TOGETHER WITH THE INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Consolidated Financial Statements

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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

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

Key Audit Matters (continued)

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

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

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

Key Audit Matters (continued)

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

Other Information included in the Group's 2019 Annual Report

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

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

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

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

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended 31 December 2019 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

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

KPMG Al Fozan & Partners
Certified Public Accountants
P. O. Box 92876
Riyadh 11663
Kingdom of Saudi Arabia

Dr. Abdullah Hamad Al Fozan
Certified Public Accountant
License no. 348

Ernst & Young

P. O. Box 2732
Riyadh 11461
Kingdom of Saudi Arabia

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

25 Jumada Thani 1441H
(19 February 2020)

كي . بي . ام . جي الفوزان وشركاه محاسبون ومراجعون قانونيون
C.R. 46
KPMG Al Fozan & Partners Certified Public Accountants

شركة ارنست ويونغ وشركاهم محاسبون قانونيون
ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS
PROFESSIONAL LICENCE No. 45

alrajhi bank
مصرف الراجحي

AL RAJHI BANKING AND INVESTMENT CORPORATION
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019 AND 2018

	Notes	31 December 2019 (SAR'000)	31 December 2018 (Restated note 37) (SAR'000)
ASSETS			
Cash and balances with Saudi Arabian Monetary Authority ("SAMA") and other central banks	4	**39,294,099**	43,246,043
Due from banks and other financial institutions, net	5	**32,058,182**	32,387,760
Investments, net	6	**46,842,630**	43,062,565
Financing, net	7	**249,682,805**	231,758,206
Property and equipment, net	8	**10,407,247**	8,649,435
Investment properties, net	9	**1,383,849**	1,297,590
Other assets, net	10	**4,417,764**	3,629,245
TOTAL ASSETS		**384,086,576**	364,030,844
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	11	**2,219,604**	7,289,624
Customers' deposits	12	**312,405,823**	293,909,125
Other liabilities	13	**18,269,492**	14,526,229
Total liabilities		**332,894,919**	315,724,978
Shareholders' equity			
Share capital	14	**25,000,000**	16,250,000
Statutory reserve	15	**21,789,632**	16,250,000
Other reserves	15	**(216,041)**	(349,555)
Retained earnings		**868,066**	12,499,171
Proposed gross dividends	23	**3,750,000**	3,656,250
Total shareholders' equity		**51,191,657**	48,305,866
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**384,086,576**	364,030,844

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

Chairman	Chief Executive Officer	Chief Financial Officer

1

AL RAJHI BANKING AND INVESTMENT CORPORATION
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018

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

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

Chairman   Chief Executive Officer   Chief Financial Officer

2

AL RAJHI BANKING AND INVESTMENT CORPORATION
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018

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

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

Chairman	Chief Executive Officer	Chief Financial Officer

AL RAJHI BANKING AND INVESTMENT CORPORATION
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)
FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018

	Notes	Share capital (SAR'000)	Statutory reserve (SAR'000)	Other reserves (SAR'000)	Retained earnings (SAR'000)	Proposed gross dividends (SAR'000)	Total (SAR'000)
Restated balance at 31 December 2018	37	**16,250,000**	**16,250,000**	**(349,555)**	**12,499,171**	**3,656,250**	**48,305,866**
Net income for the year		-	-	-	10,158,527	-	10,158,527
Net change in fair value of FVOCI investments	15	-	-	178,773	-	-	178,773
Net movement in foreign currency translation reserve	15	-	-	6,371	-	-	6,371
Re-measurement of employee EOSB liabilities	15 & 25	-	-	(51,630)	-	-	(51,630)
Net other comprehensive income recognized directly in shareholders' equity		-	-	133,514	-	-	133,514
Total comprehensive income for the year		-	-	133,514	10,158,527	-	10,292,041
Transfer to statutory reserve		-	5,539,632	-	(5,539,632)	-	-
Bonus shares issued	14	8,750,000	-	-	(8,750,000)	-	-
Dividend for the second half 2018	23	-	-	-	-	(3,656,250)	(3,656,250)
Interim dividends for the first half of 2019	23	-	-	-	(3,750,000)	-	(3,750,000)
Proposed final dividends for 2019	23 & 36	-	-	-	(3,750,000)	3,750,000	-
Balance at 31 December 2019		**25,000,000**	**21,789,632**	**(216,041)**	**868,066**	**3,750,000**	**51,191,657**

	Notes	Share capital (SAR'000)	Statutory reserve (SAR'000)	Other reserves (SAR'000)	Retained earnings (SAR'000)	Proposed gross dividends (SAR'000)	Total (SAR'000)
Balance at 31 December 2017		16,250,000	16,250,000	5,281,682	13,906,736	4,062,500	55,750,918
Impact of adopting IFRS 9	15	-	-	(129,789)	(2,752,899)	-	(2,882,688)
Impact of depreciation of property and equipment	37	-	-	-	(87,187)	-	(87,187)
Other adjustment	37	-	-	-	(799,356)	-	(799,356)
Restated balance at 1 January 2018	23	16,250,000	16,250,000	5,151,893	10,267,294	4,062,500	51,981,687
Restated net income for the year	37	-	-	-	3,767,953	-	3,767,953
Net change in fair value of FVOCI investments	15	-	-	(49,798)	-	-	(49,798)
Net movement in foreign currency translation reserve	15	-	-	(52,637)	-	-	(52,637)
Net other comprehensive income recognized directly in shareholders' equity		-	-	(102,435)	-	-	(102,435)
Total comprehensive income for the year		-	-	(102,435)	3,767,953	-	3,665,518
Final dividend for the second half 2017		-	-	-	-	(4,062,500)	(4,062,500)
Interim dividends for the first half of 2018	23	-	-	-	(3,250,000)	-	(3,250,000)
Proposed final dividends for 2018	23 & 36	-	-	-	(3,656,250)	3,656,250	-
Zakat adjustment and other transfers	37	-	-	(5,399,013)	5,370,174	-	(28,839)
Restated balance at 31 December 2018	37	16,250,000	16,250,000	(349,555)	12,499,171	3,656,250	48,305,866

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

Chairman | Chief Executive Officer | Chief Financial Officer

4

AL RAJHI BANKING AND INVESTMENT CORPORATION
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018

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

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

Chairman | Chief Executive Officer | Chief Financial Officer

1. GENERAL

a) Incorporation and operation

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

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

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

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

Name of subsidiaries	**Shareholding %**		
	2019	2018	
Al Rajhi Development Company - KSA	**100%**	100%	A limited liability company registered in the Kingdom of Saudi Arabia to support the mortgage programs of the Bank through transferring and holding the title deeds of real estate properties under its name on behalf of the Bank, collection of revenue of certain properties sold by the Bank, provide real estate and engineering consulting services, provide documentation service to register the real estate properties and overseeing the evaluation of real estate properties.
Al Rajhi Corporation Limited – Malaysia	**100%**	100%	A licensed Islamic Bank under the Islamic Financial Services Act 2013, incorporated and domiciled in Malaysia.

1. GENERAL (continued)

a) Incorporation and operation (continued)

Name of subsidiaries	Shareholding % 2019	Shareholding % 2018	
Al Rajhi Capital Company – KSA	**100%**	100%	A limited liability company registered in the Kingdom of Saudi Arabia to act as principal agent and/or to provide brokerage, underwriting, managing, advisory, arranging and custodial services.
Al Rajhi Bank – Kuwait	**100%**	100%	A foreign branch registered with the Central Bank of Kuwait.
Al Rajhi Bank – Jordan	**100%**	100%	A foreign branch operating in Hashemite Kingdom of Jordan, providing all financial, banking, and investments services and importing and trading in precious metals and stones in accordance with Islamic Sharia'a rules and under the applicable banking law.
Al Rajhi Takaful Agency Company – KSA	**99%**	99%	A limited liability company registered in the Kingdom of Saudi Arabia to act as an agent for insurance brokerage activities per the agency agreement with Al Rajhi Cooperative Insurance Company.
Al Rajhi Company for management services – KSA	**100%**	100%	A limited liability company registered in the Kingdom of Saudi Arabia to provide recruitment services.
Emkan Finance Company – KSA	**100%**	-	A closed joint stock company registered in the Kingdom of Saudi Arabia providing micro consumer financing, finance lease and small and medium business financing. As of 31 December, the company is under licensing proscess with Saudi Arabian Monetary Authority (SAMA).

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

b) Shari'a Authority

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

2. BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements of the Group have been prepared:

- in accordance with International Financial Reporting Standards (IFRS) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ('SOCPA'); and
- in compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and By-laws of the Bank.

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

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

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

b) Basis of measurement and preparation

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

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

c) Functional and presentation currency

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

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 KSA and other standards and pronouncements issued by SOCPA, requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgments in the process of applying the Group's accounting policies. Such estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods.

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

i) Impairment losses on financial assets

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

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

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

2. BASIS OF PREPARATION (continued)

d) Critical accounting judgments, estimates and assumptions (continued)

ii) Fair value of financial instruments

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

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

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

The principal or the most advantageous market must be accessible to the Group.

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

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

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

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

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

- Level 2 — Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

iii) Determination of control over investees

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

Investment funds
The Group acts as Fund Manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the Fund (comprising any carried profits and expected management fees) and the investor's rights to remove the Fund Manager the Group has.

3. BASIS OF PREPARATION (continued)

d) Critical accounting judgments, estimates and assumptions (continued)

Determination of control over investees (continued)

concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated these funds.

iv) Provisions for liabilities and charges

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

v) Going concern

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Change in accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2018 except for the adoption of the following new standard and other amendments to the accounting treatment of Zakat mentioned below.

Adoption of New Standards

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

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

Adoption of IFRS 16 – Leases

The Group adopted IFRS 16 'Leases'

Before 1 January 2019, the Group accounted for leases as follows:

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Change in accounting policies (continued)

Adoption of New Standards (continued)

Adoption of IFRS 16 – Leases (continued)

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

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

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

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

RECONCILIATION OF LEASE LIABILITIES AS OF 1 JANUARY 2019

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Change in accounting policies (continued)

Adoption of New Standards (continued)

Adoption of IFRS 16 – Leases (continued)

Right of Use Assets
The Group applies the cost model, and measures right of use assets at cost:

a) less any accumulated depreciation and any accumulated impairment losses; and

b) adjusted for any re-measurement of the lease liability for lease modifications.

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

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

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

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

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

Short-term leases and leases of low-value assets:

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis of consolidation

These consolidated financial statements comprise the financial statements of the Group. The financial statements of subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies.

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

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Investment in an associate

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

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

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

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

d) Financial instruments

1) Classification of financial assets

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

Financial assets at amortised cost

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

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

Financial Asset at FVOCI

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Financial instruments (continued)

1) Classification of financial assets (continued)

Financial Asset at FVSI
All other financial assets are classified as measured at FVSI.

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

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

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

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

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Financial instruments (continued)

1) Classification of financial assets (continued)

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

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

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

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

The Group classifies its Principal financing and Investment as follows:

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

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

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

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

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

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

2) Classification of financial liabilities

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

All amounts due to banks and other financial institutions and customer deposits are initially recognized at fair value less transaction costs.
Subsequently, financial liabilities are measured at amortized cost, unless they are required to be measured at fair value through profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
d) Financial instruments (continued)

3) Derecognition

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

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

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

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

-Financial liabilities

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

4) Modifications of financial assets and financial liabilities

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
d) Financial instruments (continued)

5) Impairment

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

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

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

No impairment loss is recognized on equity investments.

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

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition

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

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

Measurement of ECL
ECL are a probability-weighted estimate of credit losses. It is measured as follows:

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
d) Financial instruments (continued)
5) Impairment (continued)

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

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Financial instruments (continued)

5) Impairment (continued)

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

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

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

Write-off

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

Collateral valuation

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

To the extent possible, the Group uses active market data for valuing financial assets held as collateral. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, or based on housing price indices.

Collateral repossessed

The Group’s policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Group’s policy.

6) Financial guarantees and financing commitments

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Financial instruments (continued)

6) Financial guarantees and financing commitments (continued)

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

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

7) Foreign Currencies

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

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

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

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

e) Trade date

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

f) Offsetting financial instruments

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Revenue recognition

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

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

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

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

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

Fees received for asset management, wealth Management, financial planning, custody services and other similar services that are provided over an extended period of time, are recognized over the period when the service is being provided i.e. related performance obligation is satisfied . Asset management fees related to investment funds are recognized over the period the service is being provided. The same principle applies to Wealth management and Custody Services that are continuously recognized over a period of time.

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

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

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

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

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

The Group has concluded that revenue from rendering of various services related to payment service system, share trading services, remittance business, SADAD and Mudaraba (i.e. subscription, management and performance fees), should be recognized at the point when services are rendered i.e. when performance obligation is satisfied.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Other real estate

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

i) Investment properties

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

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

j) Property and equipment

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

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

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

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

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

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

k) Customers' deposits

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

l) Provisions

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Cash and cash equivalents

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

n) Short-term employee benefits

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

o) Special commission excluded from the consolidated statement of income

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

p) Provisions for employees' end of service benefits

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

q) Share-based payments

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

r) Mudaraba funds

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

s) Investment management services

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

t) Bank's products definition

The Bank provides its customers with banking products based on interest avoidance concept and in accordance with Shari'a regulations. The following is a description of some of the financing products:

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

t) Bank's products definition (continued)

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

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

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

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

4. CASH AND BALANCES WITH SAMA AND OTHER CENTRAL BANKS

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

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

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

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

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

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

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

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

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

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

6. INVESTMENTS, NET

a) Investments comprise the following as of 31 December:

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

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

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

Equity investment securities designated as at FVOCI

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

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

Investment in an associate

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

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

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

6. INVESTMENTS, NET (continued)

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

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

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

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

d) Credit quality of investments

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

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

6. INVESTMENTS, NET (continued)

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

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

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

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

7. FINANCING, NET

7–1 Financing

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

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

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

7. FINANCING, NET (continued)

7–1 Financing (continued)

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

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

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

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

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

7. FINANCING, NET (continued)

7–1 Financing (continued)

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

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

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

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

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

7-2 Allowance for impairment of financing:

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

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

7. FINANCING, NET (continued)

7-2 Allowance for impairment of financing (continued)

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

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

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

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

7. FINANCING, NET (continued)

7-2 Allowance for impairment of financing (continued)

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

7-3 Impairment charge movement

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

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

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

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

8. PROPERTY AND EQUIPMENT, NET

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

(SAR'000)

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

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

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

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

8. PROPERTY AND EQUIPMENT, NET (continued)

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

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

9. INVESTMENT PROPERTIES, NET

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

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

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

10. OTHER ASSETS, NET

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

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

11. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

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

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

12. CUSTOMERS' DEPOSITS

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

	(SAR'000)	
	2019	2018
Demand deposits	**284,299,851**	268,416,842
Customers' time investments	**22,126,226**	18,689,225
Other customer accounts	**5,979,746**	6,803,058
Total	**312,405,823**	293,909,125

The balance of the other customers' accounts includes margins on letters of credit and guarantees, cheques under clearance and transfers.

Customers' deposits by currency comprise the following as of 31 December:

	(SAR'000)	
	2019	2018
Saudi Arabian Riyals	**298,569,853**	282,460,829
Foreign currencies	**13,835,970**	11,448,296
Total	**312,405,823**	293,909,125

13. OTHER LIABILITIES

Other liabilities comprise the following as of 31 December:

	(SAR'000)	
	2019	2018
Accounts payable	**4,225,376**	2,877,770
Employees' end of service benefits liabilities (note 25)	**980,304**	901,970
Accrued expenses	**1,243,720**	974,599
Charities (note 32)	**10,994**	56,350
Zakat payable	**4,627,204**	6,338,103
Lease liability	**1,294,689**	-
Other	**5,887,205**	3,377,437
Total	**18,269,492**	14,526,229

14. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank consists of 2,500 million shares of SAR 10 each (2018: 1,625 million shares of SAR 10 each).

On the 4th of April 2019, the Bank's extraordinary general assembly approved to increase the share capital from SAR 16,250 million to SAR 25,000 million through issuance of stock dividends (7 shares for every 13 shares held). The amount of the capital increase was transferred from retained earnings.

Basic and diluted earnings per share for the year ended 31 December 2019 and 2018 is calculated by dividing the net income for the year by 2,500 million shares to give a retrospective effect of the change in the number of shares increased as a result of the bonus shares issued. The diluted earnings per share is the same as the basic earnings per share.

15. STATUTORY AND OTHER RESERVES

The Banking Control Law in Saudi Arabia and the By-Laws of the Bank require a transfer to statutory reserve at a minimum of 25% of the annual net income for the year. Such transfers continue until the reserve equals the paid up share capital. This reserve is presently not available for distribution.

Other reserves includes FVOCI investments reserve, foreign currency translation reserve and employee share plan reserve.

The movements in FVOCI investments, foreign currency reserves, and employee share plan reserve are summarized as follows:

2019	(SAR'000)				
	FVOCI investments	**Foreign currency translation**	**Employee share Plan reserve**	**Re-measurement of employees' end of service benefits**	**Total**
Balance at beginning of the year	**(259,717)**	**(126,948)**	**37,110**	**-**	**(349,555)**
Net change in fair value	**178,773**	**-**	**-**	**-**	**178,773**
Exchange difference on translation of foreign operations	**-**	**6,371**	**-**	**-**	**6,371**
Re-measurement of employees' end of service benefits (note 25)	**-**	**-**	**-**	**(51,630)**	**(51,630)**
Balance at the end of the year	**(80,944)**	**(120,577)**	**37,110**	**(51,630)**	**(216,041)**

15. STATUTORY AND OTHER RESERVES (continued)

2018	(SAR'000)				
	FVOCI investments	Foreign currency translation	Employee share Plan reserve	Re-measurement of employees' end of service benefits	Total
Balance at beginning of the year	(80,130)	(74,311)	37,110	-	(117,331)
Impact of adopting IFRS 9	(129,789)	-	-	-	(129,789)
Net change in fair value	(49,798)	-	-	-	(49,798)
Exchange difference on translation of foreign operations	-	(52,637)	-	-	(52,637)
Balance at the end of the year	(259,717)	(126,948)	37,110	-	(349,555)

16. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

As at 31 December 2019, there were certain legal proceedings outstanding against the Group in the normal course of business including those relating to the extension of credit facilities. Such proceedings are being reviewed by the concerned parties.

Provisions have been made for some of these legal cases based on the assessment of the Bank's legal advisors.

b) Capital commitments

As at 31 December 2019, the Group had capital commitments of SAR 290 million (2018: SAR 170 million) relating to contracts for computer software update and development, and SAR 145 million (2018: SAR 65 million) relating to building new workstations, and development and improvement of new and existing branches.

c) Credit related commitments and contingencies

The primary purpose of these instruments is to ensure that funds are available to customers as required. Credit related commitments and contingencies mainly comprise letters of guarantee, standby letters of credit, acceptances and unused commitments to extend credit. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet his obligations to third parties, carry the same credit risk as financing.

Letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate, and therefore, carry less risk. Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be presented before being reimbursed by the customers.

Cash requirements under guarantees and letters of credit are considerably less than the amount of the commitment because the Bank does not expect the third party to necessarily draw funds under the agreement.

Commitments to extend credit represent unused portions of authorization to extended credit, principally in the form of financing, guarantees and letters of credit. With respect to credit risk relating to commitments to extend unused credit, the Bank is potentially exposed to a loss in an amount which is equal to the total unused commitments. The likely amount of loss, which cannot be reasonably estimated, is expected to be considerably less than the total unused commitments, since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

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16. COMMITMENTS AND CONTINGENCIES (continued)

c) Credit related commitments and contingencies

The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire without being funded.

1. The contractual maturities of the Bank's commitments and contingent liabilities are as follows:

2019	**(SAR'000)**				
	Less than 3 months	**From 3 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
Letters of credit	**474,436**	**327,843**	**88,663**	**-**	**890,942**
Acceptances	**219,370**	**105,592**	**-**	**-**	**324,962**
Letters of guarantee	**1,178,236**	**2,985,474**	**765,867**	**43,623**	**4,973,200**
Irrevocable commitments to extend credit	**4,148,570**	**7,339,501**	**103,595**	**44,428**	**11,636,094**
Total	**6,020,612**	**10,758,410**	**958,125**	**88,051**	**17,825,198**

2018	(SAR'000)				
	Less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Letters of credit	562,899	417,925	1,945	-	982,769
Acceptances	261,183	208,706	-	-	469,889
Letters of guarantee	1,270,202	2,405,041	1,159,962	41,956	4,877,161
Irrevocable commitments to extend credit	2,459,684	2,901,726	855,965	265,061	6,482,436
Total	4,553,968	5,933,398	2,017,872	307,017	12,812,255

2. The analysis of commitments and contingencies by counter-party is as follows:

	(SAR'000)	
	2019	2018
Corporates	**16,322,590**	11,704,696
Banks and other financial institutions	**1,502,608**	1,107,559
Total	**17,825,198**	12,812,255

17. NET FINANCING AND INVESTMENT INCOME

Net financing and investment income for the years ended 31 December comprises the following:

	(SAR'000)	
	2019	2018
Financing		
Corporate Mutajara	**2,531,823**	2,379,009
Installment sale	**11,154,919**	9,990,021
Murabaha	**859,641**	781,737
Investments and other		
Murabaha with SAMA	**1,210,789**	1,092,878
Mutajara with banks	**1,007,516**	563,249
Income from sukuk	**197,895**	186,815
Gross financing and investment income	**16,962,583**	14,993,709
Return on customers' time investments	**(418,891)**	(346,796)
Return on due to banks and financial institutions' time investments	**(115,969)**	(159,928)
Return on customers', banks' and financial institutions' time investments	**(534,860)**	(506,724)
Net financing and investment income	**16,427,723**	14,486,985

18. FEE FROM BANKING SERVICES, NET

Fee from banking services, net for the years ended 31 December comprise the following:

	(SAR'000)	
	2019	2018
Fee income:		
Drafts and remittances	**354,981**	397,142
Credit cards	**441,705**	499,020
Other electronic channel related	**1,068,318**	920,795
Brokerage and asset management, net	**281,151**	398,725
Others	**711,525**	462,263
Total fee income	**2,857,680**	2,677,945
Fee expenses:		
ATM Interchange related	**(870,313)**	(810,911)
Fee from banking services, net	**1,987,367**	1,867,034

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19. OTHER OPERATING INCOME, NET

Other operating income for the years ended 31 December comprises the following:

	(SAR'000)	
	2019	2018
Dividend income	**58,625**	39,852
Gain / (loss) on sale of property and equipment, net	**568**	(115)
Rental income from investment properties	**117,718**	115,280
Share in profit of an associate	**23,481**	47,928
Gain on investments held as FVSI	**21,617**	14,600
Loss on sale of other real estate	**(2,490)**	(32,000)
Other income, net	**75,759**	24,150
Total	**295,278**	209,695

20. SALARIES AND EMPLOYEES' RELATED BENEFITS

The following tables provide an analysis of the salaries and employees' related benefits for the years ended 31 December:

2019	(SAR'000)			
			Variable compensations paid	
	Number of employees	**Fixed compensation**	**Cash**	**Shares**
Executives	**17**	**35,204**	**18,196**	**46,133**
Employees engaged in risk taking activities	**1,626**	**512,278**	**64,282**	**24,537**
Employees engaged in control functions	**386**	**161,583**	**25,532**	**19,773**
Other employees	**11,410**	**1,703,026**	**168,397**	**25,866**
Total	**13,439**	**2,412,091**	**276,407**	**116,309**
Accrued fixed compensations in 2019	**-**	**168,138**	**-**	**-**
Other employees' costs	**-**	**213,817**	**-**	**-**
Gross total	**13,439**	**2,794,046**	**276,407**	**116,309**

2018	(SAR'000)			
			Variable compensations paid	
	Number of employees	Fixed compensation	Cash	Shares
Executives	17	31,515	18,352	35,712
Employees engaged in risk taking activities	1,460	391,876	57,459	15,818
Employees engaged in control functions	463	146,484	32,964	15,534
Other employees	11,592	1,876,868	197,110	18,360
Total	13,532	2,446,743	305,885	85,424
Accrued fixed compensations in 2018		148,136	-	-
Other employees' costs		214,570	-	-
Gross total	13,532	2,809,449	305,885	85,424

20. SALARIES AND EMPLOYEES' RELATED BENEFITS (continued)

Salaries and employees' related benefits include end of services, General Organization for Social Insurance, business trips, training and other benefits.

As the Kingdom of Saudi Arabia is part of the G-20, instructions were given to all financial institutions in the Kingdom to comply with the standards and principles of Basel II and the Financial Stability Board.

SAMA, as the regulator for financial institutions in Saudi Arabia, issued regulations on compensations and bonus in accordance with the standards and principles of Basel II and the Financial Stability Board.

In light of the above SAMA's regulations, the Bank issued compensation and bonuses policy which was implemented after the Board of Directors approval.

The scope of this policy is extended to include the Bank and its subsidiary companies (local and international) that are operating in the financial services sector. Accordingly it includes all official employees, permanent and temporary contracted employees and service providers (contribution in risk position if SAMA allows the use of external resources).

For consistency with other banking institutions in the Kingdom of Saudi Arabia, the Bank has used a combination of fixed and variable compensation to attract and maintain talent. The fixed compensation is assessed on a yearly basis by comparing it to other local banks in the Kingdom of Saudi Arabia including the basic salaries, allowances and benefits which is related to the employees' ranks. The variable compensation is related to the employees' performance and their compatibility to achieve the agreed-on objectives. It includes incentives, performance bonus and other benefits. Incentives are mainly paid to branches' employees whereby the performance bonuses are paid to head office employees and others who do not qualify for incentives.

These bonuses and compensation are approved by the Board of Directors as a percentage of the Bank's net income.

21. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

Other general and administrative expenses for the years ended 31 December comprises the following:

	(SAR'000)	
	2019	2018
Communications and utilities expenses	**481,424**	356,061
Maintenance and security expenses	**460,550**	415,660
Cash feeding and transfer expenses	**355,245**	327,112
Software and IT support expenses	**277,520**	178,317
Other operational expenses	**957,474**	648,368
Total	**2,532,213**	1,925,518

22. EARNINGS PER SHARE

Earnings per share for the years ended 31 December 2019 and 2018 have been calculated by dividing the net income for the period by 2,500 million shares to give a retrospective effect (in the case of 2018) of the change in the number of shares increased as a result of the bonus shares issued. The diluted earnings per share is the same as the basic earnings per share.

23. PAID AND PROPOSED DIVIDENDS

On 1 August 2019, the Bank has paid an interim dividends amounting to SAR 3,750 million (SAR 1.5 per share) for the first half of 2019. (2018: SAR 3,250 million (i.e. SAR 2 per share) based on 1,625 million shares).

Also on 2 February 2020, the Board of Directors proposed final dividends for the year 2019 amounting to SAR 3,750 million (i.e. SAR 1.5 per share) (2018: SAR 3,656 million, (i.e. SAR 2.25 per share) based on 1,625 million shares).

24. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following:

	(SAR'000)	
	2019	2018
Cash in hand	**7,404,276**	8,133,635
Due from banks and other financial institutions maturing within 90 days from the date of purchased	**2,480,803**	5,984,654
Balances with SAMA and other central banks (current accounts)	**371,320**	293,214
Mutajara with SAMA	**10,855,000**	15,375,000
Total	**21,111,399**	29,786,503

25. EMPLOYEES' END OF SERVICE BENEFITS LIABILITIES

25.1 General description

The Bank operates an End of Service Benefit Plan for its employees based on the prevailing Saudi Labor Laws. Accruals are made in accordance with the actuarial valuation under the projected unit credit method, while the benefit payments liabilities are discharged as and when they fall due.

25.2 The amounts recognized in the consolidated statement of financial position and movement in the liabilities during the year based on its present value are as follows:

	2019 SAR' 000	2018 SAR' 000
Employees' end of service benefits liabilities at the beginning of the year	**901,970**	848,422
Current service cost	**98,541**	107,685
Financing cost	**39,845**	85,995
Benefits paid	**(111,682)**	(140,132)
Remeasurement loss	**51,630**	-
Employees' end of service benefits liabilities at the end of the year	**980,304**	901,970

25.3 Charge for the year

	2019 SAR' 000	2018 SAR' 000
Current service cost	**98,541**	106,152
Past service cost	**-**	1,533
	98,541	107,685

EMPLOYEES' END OF SERVICE BENEFITS LIABILITIES (continued)

25.4 Re-measurement recognised in other comprehensive income

	2019 SAR' 000	2018 SAR' 000
Gain from change in experience assumptions	**(5,940)**	-
Loss from change in financial assumptions	**57,570**	-
	51,630	-

25.5 Principal actuarial assumptions (in respect of the employee benefit scheme)

	2019	2018
Discount rate	**4.20%**	5.00%
Expected rate of salary increase	**3.00%**	3.00%
Normal retirement age	**60 years for male employees and 55 for female employees**	60 years for male employees and 55 for female employees

Assumptions regarding future mortality are set based on actuarial advice in accordance with the published statistics and experience in the region.

25.6 Sensitivity of actuarial assumptions

The table below illustrates the sensitivity of the employees' end of service benefits liabilities valuation as at 31 December, 2019 to the discount rate (4.20%), salary increase rate (3.00%), withdrawal assumptions and mortality rates.

	SAR 000'		
2019	**Impact on defined benefit obligation – Increase / (Decrease)**		
Base Scenario	**Change in assumption**	**Increase in assumption**	**Decrease in assumption**
Discount rate	**+/- 100 basis points**	**(109,828)**	**131,671**
Expected rate of salary increase	**+/- 100 basis points**	**131,949**	**(111,989)**
Normal retirement age	**Increase or decrease by 20%**	**3,204**	**(4,098)**

	SAR 000'		
2018	Impact on defined benefit obligation – Increase / (Decrease)		
Base Scenario	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	+/- 100 basis points	(96,511)	115,452
Expected rate of salary increase	+/- 100 basis points	117,256	(99,217)
Normal retirement age	Increase or decrease by 20%	9,020	(10,824)

The above sensitivity analyses are based on a change in an assumption holding all other assumptions constant.

25. EMPLOYEE BENEFIT OBLIGATION (continued)

25.7 Expected maturity

Expected maturity analysis of undiscounted employees' end of service benefits liabilities is as follows:

As at 31 December	Discounted liability	Less than a year	1-2 years	2-5 years	Over 5 years	Total
2019	**980,304**	**66,110**	**72,742**	**256,803**	**3,638,241**	**4,033,896**
2018	901,970	61,300	71,836	244,884	3,519,680	3,897,700

The weighted average duration of the employees' end of service benefits liabilities is 14.4 years (2018: 15 years).

26. OPERATING SEGMENTS

The Bank identifies operating segments on the basis of internal reports about the activities of the Bank that are regularly reviewed by the chief operating decision maker, principally the Chief Executive Officer, in order to allocate resources to the segments and to assess its performance.

For management purposes, the Bank is organized into the following four main businesses segments:

Retail segment: Includes individual customer deposits, credit facilities, customer debit current accounts (overdrafts) and fees from banking services.

Corporate segment: Incorporates deposits of corporate customers, credit facilities, and debit current accounts (overdrafts).

Treasury segment: Includes treasury services, Murabaha with SAMA and international Mutajara portfolio and remittance business.

Investment services and brokerage segments: Includes investments of individuals and corporates in mutual funds, local and international share trading services and investment portfolios.

Transactions between the above segments are on normal commercial terms and conditions. Assets and liabilities for the segments comprise operating assets and liabilities, which represents the majority of the Bank's assets and liabilities.

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26. OPERATING SEGMENTS (continued)

a) The Bank's total assets and liabilities, together with its total operating income and expenses, and net income, as of and for the years ended 31 December for each segment are as follows:

	(SAR'000)				
2019	Retail segment	Corporate segment	Treasury segment	Investment services and brokerage segment	Total
Total assets	208,945,668	59,406,741	112,968,906	2,765,261	384,086,576
Total liabilities	289,628,309	34,753,212	8,376,081	137,317	332,894,919
Gross financing and investment income from external customers	11,115,534	3,329,362	2,493,337	24,350	16,962,583
Inter-segment operating income/ (expense)	1,432,229	(1,117,680)	(314,549)	-	-
Gross financing and investment income	12,547,763	2,211,682	2,178,788	24,350	16,962,583
Return on customers', banks' and financial institutions' time investments	(221,657)	(127,114)	(186,089)	-	(534,860)
Net financing and investment income	12,326,106	2,084,568	1,992,699	24,350	16,427,723
Fees from banking services, net	971,089	366,932	252,103	397,243	1,987,367
Exchange income, net	159,805	67,405	546,886	-	774,096
Other operating income, net	133,815	13,017	106,661	41,785	295,278
Total operating income	13,590,815	2,531,922	2,898,349	463,378	19,484,464
Depreciation and amortization	(983,974)	(14,234)	(54,958)	(6,416)	(1,059,582)
Impairment charge for financing and other financial assets, net	(1,713,370)	(61,373)	2,478	-	(1,772,265)
Other operating expenses	(4,467,064)	(305,892)	(407,238)	(146,065)	(5,326,259)
Total operating expenses	(7,164,408)	(381,499)	(459,718)	(152,481)	(8,158,106)
Income before zakat	6,426,407	2,150,423	2,438,631	310,897	11,326,358

26. OPERATING SEGMENTS (continued)

	(SAR'000)				
2018	**Retail segment**	**Corporate segment**	**Treasury segment**	**Investment services and brokerage segment**	**Total**
Total assets	186,924,991	62,102,306	111,970,385	3,033,162	364,030,844
Total liabilities	273,115,320	28,763,133	13,716,156	130,369	315,724,978
Gross financing and investments income from external customers	9,923,875	3,062,944	1,982,370	24,520	14,993,709
Inter-segment operating income/ (expense)	774,845	(898,876)	124,031	-	-
Gross financing and investment income	10,698,720	2,164,068	2,106,401	24,520	14,993,709
Return on customers', banks' and financial institutions' time investments	(124,676)	(213,870)	(159,928)	(8,250)	(506,724)
Net financing & investment income	10,574,044	1,950,198	1,946,473	16,270	14,486,985
Fees from banking services, net	867,121	323,890	277,298	398,725	1,867,034
Exchange income, net	157,251	40,892	557,661	-	755,804
Other operating income, net	25,019	-	62,699	121,977	209,695
Total operating income	11,623,435	2,314,980	2,844,131	536,972	17,319,518
Depreciation and amortization	(517,955)	(9,948)	(69,464)	(5,769)	(603,136)
Impairment charge for financing and other financial assets, net	(1,177,409)	(302,895)	(50,642)	-	(1,530,946)
Other operating expenses	(4,145,108)	(322,513)	(440,005)	(141,908)	(5,049,534)
Total operating expenses	(5,840,472)	(635,356)	(560,111)	(147,677)	(7,183,616)
Income before zakat	5,782,963	1,679,624	2,284,020	389,295	10,135,902

b) The Group's credit exposure by business segments as of 31 December is as follows:

	(SAR'000)				
2019	**Retail segment**	**Corporate segment**	**Treasury segment**	**Investment services and brokerage segment**	**Total**
Consolidated balance sheet assets	**166,049,907**	**55,905,791**	**100,797,864**	**2,730,512**	**325,484,074**
Commitments and contingencies excluding irrevocable commitments to extend credit	**-**	**6,092,269**	**-**	**-**	**6,092,269**

26. OPERATING SEGMENTS (continued)

	(SAR'000)				
2018	Retail segment	Corporate segment	Treasury segment	Investment services and brokerage segment	Total
Consolidated balance sheet assets	155,728,107	52,268,997	94,240,742	2,552,885	304,790,731
Commitments and contingencies excluding irrevocable commitments to extend credit	-	6,329,819	-	-	6,329,819

27. FINANCIAL RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the banking business, and these risks are an inevitable consequence of participating in financial markets. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

The Bank's risk management policies, procedures and systems are designed to identify and analyze these risks and to set appropriate risk mitigants and controls. The Bank reviews its risk management policies and systems on an ongoing basis to reflect changes in markets, products and emerging best practices.

Risk management is performed by the Credit and Risk Management Group ("CRMG") under policies approved by the Board of Directors. The CRMG identifies and evaluates financial risks in close co-operation with the Bank's operating units. The most important types of risks identified by the Bank are credit risk, liquidity risk and market risk. Market risk includes currency risk, profit rate risk, operational risk and price risk.

27-1 Credit risk

Credit risk is considered to be the most significant and pervasive risk for the Bank. The Bank takes on exposure to credit risk, which is the risk that the counter-party to a financial transaction will fail to discharge an obligation causing the Bank to incur a financial loss. Credit risk arises principally from financing (credit facilities provided to customers) and from cash and deposits held with other banks. Further, there is credit risk in certain off-balance sheet financial instruments, including guarantees relating to purchase and sale of foreign currencies, letters of credit, acceptances and commitments to extend credit. Credit risk monitoring and control is performed by the CRMG, which sets parameters and thresholds for the Bank's financing activities.

a) Credit risk measurement

i) Financing

The Bank has structured a number of financial products which are in accordance with Sharia law in order to meet the customers demand. These products are all classified as financing assets in the Bank's consolidated statement of financial position. In measuring credit risk of financing at a counterparty level, the Bank considers the overall credit worthiness of the customer based on a proprietary risk methodology.

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a. Credit risk measurement (continued)

i) Financing (continued)

This risk rating methodology utilizes a 10 point scale based on quantitative and qualitative factors with seven performing categories (rated 1 to 7) and three non-performing categories (rated 8-10). The risk rating process is intended to advise the various independent approval authorities of the inherent risks associated with the counterparty and assist in determining suitable pricing commensurate with the associated risk.

ii) Credit risk grades

For corporate exposures, the Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each corporate exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring of corporate exposure involves use of the following data.

- Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections.
- Data from credit reference agencies, press articles, changes in external credit ratings
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its customers analyzed by segment as well as by credit risk grading.

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

iii) Generating the term structure of PD

The Bank employs analytical techniques incorporating internal default estimates backed by transition matrices published by external agencies to construct PD term structures that can be applied to each exposure based on the its remaining lifetime. These PD term structures are then adjusted to incorporate the impact of macroeconomic outlook to arrive at a forward looking estimate of PD across the lifetime.

For retail exposure, borrower and loan specific information collected at the time of application, repayment behavior etc. are used to construct risk based segmentation using Chi-square Automatic Interaction Detection (CHAID) (or Decision Tree) technique. Risk segments are constructed to identify and aggregate customers with similar risk characteristics. For each risk segment thus formed, PD term structures are constructed using historical data that can be applied to each exposure based on its remaining lifetime.

Based on consideration of a variety of external actual and forecast information from published sources, the Bank formulates a forward looking adjustment to PD term structures to arrive at forward looking PD estimates across the lifetime using macroeconomic models.

Risk Rating 1
Exceptional - Obligors of unquestioned credit standing at the pinnacle of credit quality.

Risk Rating 2
Excellent - Obligors of the highest quality, presently and prospectively. Virtually no risk in lending to this class, Cash flows reflect exceptionally large and stable margins of protection. Projected cash flows including anticipated credit extensions indicate strong liquidity levels and debt service coverage. Balance Sheet parameters are strong, with excellent asset quality in terms of value and liquidity.

Risk Rating 3
Superior - Typically obligors at the lower end of the high quality range with excellent prospects. Very good asset quality and liquidity. Consistently strong debt capacity and coverage. There could however be some elements, which with a low likelihood might impair performance in the future.

Risk Rating 4
Good - Typically obligors in the high end of the medium range who are definitely sound with minor risk characteristics. Elements of strength are present in such areas as liquidity, stability of margins, cash flows, diversity of assets, and lack of dependence on one type of business.

Risk Rating 5
Satisfactory - These are obligors with smaller margins of debt service coverage and with some elements of reduced strength. Satisfactory asset quality, liquidity, and good debt capacity and coverage. A loss year or declining earnings trend may occur, but the borrowers have sufficient strength and financial flexibility to offset these issues.

Risk Rating 6
Adequate - Obligors with declining earnings, strained cash flow, increasing leverage and/ or weakening market fundamentals that indicate above average risk, such borrowers have limited additional debt capacity, modest coverage, average or below average asset quality and market share. Present borrower performance is satisfactory, but could be adversely affected by developing collateral quality/ adequacy etc.

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

Risk Rating 7
Very high risk - Generally undesirable business constituting an undue and unwarranted credit risk but not to the point of justifying a substandard classification. No loss of principal or profit has taken place. Potential weakness might include a weakening financial condition, an unrealistic repayment program, inadequate sources of funds, or a lack of adequate collateral, credit information or documentation. The entity is undistinguished and mediocre. No new or incremental credits will generally be considered for this category.

Risk Rating 8
Substandard - Obligors in default and 90 Days Past Due on repayment of their obligations. Unacceptable business credit. Normal repayment is in jeopardy, and there exists well defined weakness in support of the same. The asset is inadequately protected by the current net worth and paying capacity of the obligor or pledged collateral. Specific provision raised as an estimate of potential loss.

Risk Rating 9
Doubtful - Obligors in default and 180 Days Past Due (DPD) on their contracted obligations, however in the opinion of the management recovery/ salvage value against corporate and real estate obligors is a possibility, and hence write-off should be deferred. Full repayment questionable. Serious problems exist to the point where a partial loss of principle is likely. Weaknesses are so pronounced that on the basis of current information, conditions and values, collection in full is highly improbable. Specific provision raised as an estimate of potential loss. However, for retail obligors (except real estate) and credit cards, total loss is expected. A 100% Specific Provisioning must be triggered followed by the write-off process should be effected as per Al Rajhi Bank write-off policy.

Risk Rating 10
Loss - Obligors in default and 360 Days Past Due (DPD) on their obligations. Total loss is expected. An uncollectible assets which does not warrant classification as an active asset. A 100% Specific Provisioning must be triggered followed by the write-off process should be effected as per Al Rajhi Bank write-off policy.

iv) ECL - Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

For Corporate portfolio, the Bank's assessment of significant increase in credit risk is based on facility level except for watch-list accounts, whereby the Bank's assessment is based on counterparty. Significant increase in credit risk assessment for retail loans is carried out at customer level within same product family. All the exposures which are considered to have significantly increased in credit risk are subject to lifetime ECL.

The Bank considers all investment grade debt securities issued by sovereigns including Gulf Corporation Council (GCC) countries to have low credit risk.

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

v) Determining whether credit risk has increased significantly

In determining whether credit risk has increased significantly since initial recognition, the Bank uses its internal credit risk grading system, external risk ratings, quantitative changes in PDs , delinquency status of accounts, expert credit judgement and, where possible, relevant historical experience.

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition based on quantitative assessment and / or using its expert credit judgment and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

The Bank classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below: -

Stage 1: for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Bank recognises an allowance based on the 12-month ECL. All accounts at origination would be classified as Stage 1.

Stage 2: for financial instruments where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired, the Bank recognises an allowance for the lifetime ECL for all financings categorized in this stage based on the actual / expected behavioral maturity profile including restructuring or rescheduling of facilities.

Stage 3: for credit-impaired financial instruments, the Bank recognises the lifetime ECL. Default identification process i.e. DPD of 90 or more is assumed to be stage 3.

vi) Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the accounting policy.

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

vi) Modified financial assets (continued)

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities' to maximize collection opportunities and minimize the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of profit payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

Forbearance is a qualitative indicator of a significant increase in credit risk, and an expectation of forbearance may constitute evidence that an exposure is credit-impaired/in default. A customer needs to demonstrate consistently good payment behavior over a period of 12 months before the exposure is no longer considered to be credit-impaired/ in default.

vii) Definition of 'Default'

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Bank.

Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

In assessing whether a borrower is in default. the Bank considers indicators that are:

- qualitative- e.g. breaches of covenant;
- quantitative- e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied for the bank for regulatory purposes.

viii) Incorporation of forward looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on consideration of a variety of external actual and forecast information from published sources, the Bank formulates a forward looking adjustment to PD term structures to arrive at forward looking PD estimates across the lifetime using macroeconomic models.

27. FINANCIAL RISK MANAGEMENT (continued)
27-1 Credit risk (continued)

a) Credit risk measurement (continued)

viii) Incorporation of forward looking information (continued)

The Bank considers scenarios in range of 3-5 years horizon (consistent with forecasts available from public sources), beyond which the long term average macroeconomic conditions prevail. Externally available macroeconomic forecasts from International Monetary Fund (IMF) and Saudi Arabian Monetary Authority (SAMA) are used for making the base case forecast. For other scenarios, adjustments are made to base case forecasts based on expert judgement.

The base case represents a most-likely outcome as published by external sources. The other scenarios represent more optimistic and more pessimistic outcomes.

Economic Indicators	Weightage **2019**
GDP growth rate	**55.44%**
Government expenditure to GDP	**44.56%**

Economic Indicators	Weightage 2018
GDP growth rate	56.29%
Government expenditure to GDP	43.71%

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data.

ix) Measurement of ECL

The Bank measures an ECL at an individual instrument level taking into account the projected cash flows, PD, LGD, CCF and discount rate.

The key inputs into the measurement of ECL are the term structure of the following variables:

i. probability of default (PD);
ii. loss given default (LGD);
iii. exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a. Credit risk measurement (continued)

ix) Measurement of ECL (continued)

For Retail portfolio, bank uses internal LGD models to arrive at the LGD estimates. For Corporate portfolio, bank used supervisory estimates of LGD.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. The period of exposure limits the period over which possible defaults are considered and thus affects the determination of PDs and measurement of ECLs (especially for Stage 2 accounts with lifetime ECL).

x) Credit quality analysis

a) The following table sets out information about the credit quality of financings measured at amortized cost as at 31 December :

	2019			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
	SAR in '000'			
Carrying amount distribution by Grades				
Grade 1-3 / (Aaa - A3)	**13,547,133**	**-**	**-**	**13,547,133**
Grade (4-6) / (Baa1 - B3)	**44,673,584**	**3,134,911**	**-**	**47,808,495**
Grade 7- Watch list / (Caa1 – C)	**-**	**3,104,199**	**-**	**3,104,199**
Non-performing	**-**	**-**	**1,687,074**	**1,687,074**
Total Corporate performing and non-performing	**58,220,717**	**6,239,110**	**1,687,074**	**66,146,901**
Total Retail (un-rated)	**187,409,069**	**2,516,712**	**629,719**	**190,555,500**
Total Carrying amount	**245,629,786**	**8,755,822**	**2,316,793**	**256,702,401**

	2018			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	SAR in '000'			
Carrying amount distribution by Grades				
Grade 1-3 / (Aaa - A3)	8,322,229	-	-	8,322,229
Grade (4-6) / (Baa1 - B3)	44,092,511	12,217,422	-	56,309,933
Grade 7- Watch list / (Caa1 – C)	-	2,918,751	-	2,918,751
Non-performing	-	-	1,686,855	1,686,855
Total Corporate performing and non-performing	52,414,740	15,136,173	1,686,855	69,237,768
Total Retail (un-rated)	166,676,629	3,072,823	603,457	170,352,909
Total Carrying amount	219,091,369	18,208,996	2,290,312	239,590,677

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

xi) Financings

a) The net financing concentration risks and the related provision, by major economic sectors at 31 December are as follows:

2019	**(SAR'000)**			
Description	**Performing**	**Non-Performing**	**Allowance for impairment**	**Net financing**
Commercial	**19,661,771**	**590,056**	**(424,883)**	**19,826,944**
Industrial	**26,775,778**	**375,395**	**(283,941)**	**26,867,232**
Building and construction	**2,031,147**	**573,757**	**(401,434)**	**2,203,470**
Consumer	**192,926,177**	**674,114**	**(532,585)**	**193,067,706**
Services	**12,336,880**	**103,471**	**(70,882)**	**12,369,469**
Agriculture and fishing	**340,974**	**-**	**-**	**340,974**
Others	**312,881**	**-**	**-**	**312,881**
Total	**254,385,608**	**2,316,793**	**(1,713,725)**	**254,988,676**
12 month and life time ECL not credit impaired	**-**	**-**	**(5,305,871)**	**(5,305,871)**
Balance	**254,385,608**	**2,316,793**	**(7,019,596)**	**249,682,805**

2018	(SAR'000)			
Description	Performing	Non-Performing	Allowance for impairment	Net financing
Commercial	17,365,910	746,180	(618,139)	17,493,951
Industrial	28,007,663	774,347	(696,112)	28,085,898
Building and construction	3,442,028	71,682	(82,411)	3,431,299
Consumer	171,255,069	603,423	(470,400)	171,388,092
Services	16,295,853	80,751	(75,584)	16,301,020
Agriculture and fishing	467,960	-	-	467,960
Others	465,882	13,929	(6)	479,805
Total	237,300,365	2,290,312	(1,942,652)	237,648,025
12 month and life time ECL not credit impaired	-	-	(5,889,819)	(5,889,819)
Balance	237,300,365	2,290,312	(7,832,471)	231,758,206

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

xi) Financings (continued)

b) The tables below set out the aging of financing past due but not impaired as at 31 December:

2019	**(SAR'000)**			
Age	**Mutajara**	**Installment sale**	**Credit cards**	**Total**
up to 30 days	**2,825,036**	**191,728**	**-**	**3,016,764**
31-60 days	**781,204**	**58,130**	**22,802**	**862,136**
61-90 days	**649,949**	**36,366**	**24,870**	**711,185**
Total	**4,256,189**	**286,224**	**47,672**	**4,590,085**
Fair value of collateral	**2,737,767**	**114,208**	**-**	**2,851,975**

2018	(SAR'000)			
Age	Mutajara	Installment sale	Credit cards	Total
up to 30 days	5,640,509	180,122	-	5,820,631
31-60 days	338,418	40,829	12,700	391,947
61-90 days	288,367	26,209	16,475	331,051
Total	6,267,294	247,160	29,175	6,543,629
Fair value of collateral	1,835,781	81,014	-	1,916,795

The Group in the ordinary course of lending activities hold collaterals as security to mitigate credit risk in financings. These collaterals mostly include time, demand, and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. Real estate collaterals against financing are considered as held for sale and included in other assets.

The collaterals are held mainly against commercial and consumer loans and are managed against relevant exposures at their net realizable values. For financial assets that are credit impaired at the reporting period, quantitative information about the collateral held as security is needed to the extent that such collateral mitigates credit risk.

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

xi) Financings (continued)

c) The table below sets out gross balances of individually impaired financing, together with the fair value of related collateral held by the Group as at 31 December:

2019	**(SAR'000)**		
	Retail	**Corporate**	**Total**
Individually impaired financing	**629,719**	**1,687,074**	**2,316,793**
Fair value of collateral	**214,921**	**522,084**	**737,005**

2018	(SAR'000)		
	Retail	Corporate	Total
Individually impaired financing	603,457	1,686,855	2,290,312
Fair value of collateral	176,992	1,971,724	2,148,716

d) The table below stratifies credit exposures from corporate financing by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the financing or the amount committed for loan commitments to the value of the collateral. The gross amounts exclude any impairment allowance.

(SAR'000)	**2019**	**2018**
Less than 50%	**61,167,858**	65,100,456
51-70%	**480,738**	835,193
71-90%	**428,167**	1,382,614
91-100%	**-**	-
More than 100%	**4,070,138**	1,919,505
Total exposure	**66,146,901**	69,237,768

b) Settlement risk

The Bank is also exposed to settlement risk in its dealings with other financial institutions. This risk arises when the Bank pays its side of the transaction to the other bank or counterparty before receiving payment from the third party. The risk is that the third party may not pay its obligation. While these exposures are short in duration, they can be significant. The risk is mitigated by dealing with highly rated counterparties, holding collateral and limiting the size of the exposures according to the risk rating of the counterparty.

c) Risk limit control and mitigation policies

The responsibility for credit risk management is enterprise-wide in scope. Strong risk management is integrated into daily processes, decision making and strategy setting, thereby making the understanding and management of credit risk the responsibility of every business segment.

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

c) Risk limit control and mitigation policies (continued)

The following business units within the Bank assist in the credit control process:

- Corporate Credit Unit.
- Credit Administration, Monitoring and Control Unit.
- Remedial Unit.
- Credit Policy Unit.
- Retail Credit Unit.

The monitoring and management of credit risk associated with these financing are made by setting approved credit limits. The Bank manages limits and controls concentrations of credit risk wherever they are identified - in particular, to individual customers and groups, and to industries and countries.

Concentrations of credit risks arise when a number of customers are engaged in similar business activities, activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risks indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location. The Bank seeks to manage its credit risk exposure through diversification of its financing to ensure there is no undue concentration of risks with to individuals or groups of customers in specific geographical locations or economic sectors.

The Bank manages credit risk by placing limits on the amount of risk accepted in relation to individual customers and groups, and to geographic and economic segments. Such risks are monitored on a regular basis and are subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, economic sector and by country are reviewed at least annually by the executive committee.

Exposure to credit risk is also managed through regular analysis on the ability of customers and potential customers to meet financial and contractual repayment obligations and by revising credit limits where appropriate.

Some other specific control and mitigation measures are outlined below:

c-1) Collateral

The Bank implements guidelines on the level and quality of specific classes of collateral, The principal collateral types are:

- Mortgages over residential and commercial properties.
- Cash, shares, and general assets for customer.
- Shares for Murabaha (collateralized share trading) transactions.

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as traditional banking products of the Bank.

Documentary and commercial letters of credit - which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying goods to which they relate, and therefore, risk is partially mitigated.

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

c) Risk limit control and mitigation policies (continued)

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of further financing products, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards

d) Impairment and provisioning policies

The table below sets out the maximum exposure to credit risk at the reporting date without considering collateral or other credit enhancements and includes the off-balance sheet financial instruments involving credit risks as at 31 December:

	(SAR'000)	
On-balance sheet items	**2019**	2018
Investments, net:		
Murabaha with Saudi Government and SAMA	**24,991,978**	22,477,145
Sukuk	**18,751,109**	18,167,620
Due from banks and other financial institutions	**32,058,182**	32,387,760
Financing, net		
Corporate	**62,959,778**	65,455,862
Retail	**186,723,027**	166,302,344
Total on-balance sheet items	**325,484,074**	304,790,731
Off-balance sheet items:		
Letters of credit and acceptances	**1,118,090**	1,452,658
Letters of guarantee	**4,974,179**	4,877,161
Irrevocable commitments to extend credit	**11,636,094**	6,482,436
Total off-balance sheet items	**17,728,363**	12,812,255
Maximum exposure to credit risk	**343,212,437**	317,602,986

The exposures set out above are based on net carrying amounts as reported in the consolidated statement of financial position.

27-2 Liquidity risks

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay deposits and financing parties and fulfill financing commitments. Liquidity risk can be caused by market disruptions or by credit downgrades, which may cause certain sources of funding to become unavailable immediately. Diverse funding sources available to the Bank help mitigate this risk. Assets are managed with liquidity in mind, maintaining a conservative balance of cash and cash equivalents.

27. FINANCIAL RISK MANAGEMENT (continued)

27-2 Liquidity risks (continued)

Liquidity risk management process

The Bank's liquidity management process is as monitored by the Bank's Asset and Liabilities Committee (ALCO), and includes:

- Day-to-day funding, managed by Treasury to ensure that requirements can be met, and this includes replenishment of funds as they mature or are invested;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements;
- Managing the concentration and profile of debt maturities;
- Maintaining diversified funding sources; and
- Liquidity management and asset and liability mismatching.

Monitoring and reporting take the form of analyzing cash flows of items with both contractual and non-contractual maturities. The net cash flows are measured to ensure that they are within acceptable ranges. The Treasury / ALCO also monitors the level and type of undrawn lending commitments, usage of overdraft facilities and the potential impact of contingent liabilities such as standby letters of credit and guarantees may have on the Bank's liquidity position.

The tables below summarize the maturity profile of the Bank's assets and liabilities, on the basis of the remaining maturity as of the consolidated statement of financial position date to the contractual maturity date.

Management monitors the maturity profile to ensure that adequate liquidity is maintained. Assets available to meet liabilities and to cover outstanding financing commitments include cash, balances with SAMA and due from banks. Further, in accordance with the Banking Control Law and Regulations issued by SAMA, the Bank maintains a statutory deposit equal to a sum not less than 7% of total customers' deposits, and 4% of total other customers' accounts. In addition to the statutory deposit, the Bank maintains a liquid reserve of not less than 20% of the deposit liabilities, in the form of cash, gold or assets which can be converted into cash within a period not exceeding 30 days. Also, the Bank has the ability to raise additional funds through special financing arrangements with SAMA including deferred sales transactions.

The contractual maturities of financial assets and liabilities as of 31 December based on discounted cash flows are as follows. The table below reflects the expected cash flows indicated by the deposit retention history of the Group. Management monitors a rolling forecast of the Group's liquidity position and cash and cash equivalents on the basis of expected cash flows. This is carried out in accordance with practice and limits set by the Group and based on the pattern of historical deposit movements. In addition, the Group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

27. FINANCIAL RISK MANAGEMENT (continued)

27-2 Liquidity risks (continued)

2019	(SAR'000)					
	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	No Fixed Maturity	Total
Assets						
Cash and balance with SAMA and other central banks	10,855,000	-	-	-	28,439,099	39,294,099
Due from banks and other financial institutions	11,494,160	6,575,839	13,988,183	-	-	32,058,182
Financing, net						
Mutajara	13,875,181	11,750,437	12,908,065	3,043,561	-	41,577,244
Installment sale	12,151,486	29,194,865	97,755,730	48,621,920	-	187,724,001
Murabaha	3,771,541	4,221,613	3,878,893	5,356,019	-	17,228,066
Credit cards	1,447,050	731,273	975,171	-	-	3,153,494
Investments, net						
Investment in an associate	-	-	-	-	196,235	196,235
Investments held at amortized cost	2,566,987	-	16,089,945	24,286,155	-	42,943,087
FVSI investments	-	-	800,000	-	1,230,711	2,030,711
FVOCI investments	-	-	-	-	1,672,597	1,672,597
Other assets, net	-	-	-	-	16,208,860	16,208,860
Total	56,161,405	52,474,027	146,395,987	81,307,655	47,747,502	384,086,576
Liabilities						
Due to banks and other financial institutions	1,885,035	-	-	-	334,569	2,219,604
Demand deposits	-	-	-	-	284,299,851	284,299,851
Customers' time investments	17,095,711	4,578,411	450,331	1,773	-	22,126,226
Other customer accounts	1,569,561	2,072,232	2,337,953	-	-	5,979,746
Other liabilities	-	-	-	-	18,269,492	18,269,492
Total Liabilities	20,550,307	6,650,643	2,788,284	1,773	302,903,912	332,894,919
Gap	35,611,098	45,823,384	143,607,703	81,305,882	(255,156,410)	51,191,657

27. FINANCIAL RISK MANAGEMENT (continued)

27-2 Liquidity risks (continued)

2018	(SAR'000)					
	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	No Fixed Maturity	Total
Assets						
Cash and balance with SAMA and other central banks	15,375,000	-	-	-	27,871,043	43,246,043
Due from banks and other financial institutions	10,569,683	8,273,620	12,488,206	-	1,056,251	32,387,760
Financing, net						
Mutajara	14,480,073	15,127,724	11,655,333	2,456,174	-	43,719,304
Installment sale	10,769,129	30,019,044	101,070,050	29,391,728	-	171,249,951
Murabaha	1,193,548	4,462,625	6,381,359	2,792,068	-	14,829,600
Credit cards	1,959,351	-	-	-	-	1,959,351
Investments, net						
Investment in an associate	-	-	-	-	172,753	172,753
Investments held at amortized cost	370,449	213,900	14,118,036	25,142,380	-	39,844,765
FVSI investments	-	1,941,584	-	-	-	1,941,584
FVOCI investments	-	-	-	1,103,463	-	1,103,463
Other assets, net	-	-	-	-	13,576,270	13,576,270
Total	54,717,233	60,038,497	145,712,984	60,885,813	42,676,317	364,030,844
Liabilities						
Due to banks and other financial institutions	3,951,361	2,583,028	-	-	755,235	7,289,624
Demand deposits	-	-	-	-	268,416,842	268,416,842
Customers' time investments	17,027,753	1,661,472	-	-	-	18,689,225
Other customer accounts	1,662,667	1,359,251	3,781,140	-	-	6,803,058
Other liabilities	-	-	-	-	14,526,229	14,526,229
Total	22,641,781	5,603,751	3,781,140	-	283,698,306	315,724,978
Gap	32,075,452	54,434,746	141,931,844	60,885,813	(241,021,989)	48,305,866

The following tables disclose the maturity of contractual financial liabilities on undiscounted cash flows as at 31 December:

2019	(SAR'000)					
	Less than 3 months	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Due to banks and other financial institutions	**2,342,000**	**-**	**-**	**-**	**334,569**	**2,676,569**
Customer deposits	**19,293,271**	**6,891,825**	**2,821,521**	**1,773**	**284,299,851**	**313,308,241**
Other liabilities	**-**	**-**	**-**	**-**	**18,269,492**	**18,269,492**
Total	**21,635,271**	**6,891,825**	**2,821,521**	**1,773**	**302,903,912**	**334,254,302**

27. FINANCIAL RISK MANAGEMENT (continued)

27-2 Liquidity risks (continued)

2018	(SAR'000)					
	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Due to banks and other financial institutions	3,951,361	2,583,028	-	-	755,235	7,289,624
Customers' deposits	18,690,420	3,020,723	3,781,140	-	268,416,842	293,909,125
Other liabilities	-	-	-	-	14,526,229	14,526,229
Total	22,641,781	5,603,751	3,781,140	-	283,698,306	315,724,978

The cumulative maturities of commitments and contingencies are given in note 16-c-1 of the consolidated financial statements.

27-3 Market risks

The Bank is exposed to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risks arise on profit rate products, foreign currency and mutual fund products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as profit rates, foreign exchange rates and quoted market prices.

Market risk exposures are monitored by Treasury / Credit & Risk department and reported to ALCO on a monthly basis. ALCO deliberates on the risks taken and ensures that they are appropriate.

a. Market risks - speculative operations

The Bank is not exposed to market risks from speculative operations. The Bank is committed to Sharia guidelines which do not permit it to enter into contracts or speculative instruments such as hedging, options, forward contracts and derivatives.

b. Market risks - banking operations

- **Profit rate risk**

Cash flow profit rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market profit rates. The Bank does not have any significant exposure to the effects of fluctuations in prevailing level of market profit rates on its future cash flows as a significant portion of profit earning financial assets and profit bearing liabilities are at fixed rates and are carried in the financial statements at amortized cost. In addition to this, a substantial portion of the Bank's financial liabilities are non-profit bearing.

Commission rate risk arises from the possibility that the changes in profit rates will affect either the fair values or the future cash flows of the financial instruments. The Board has established commission rate gap limits for stipulated periods. The Bank monitors positions daily and uses gap management strategies to ensure maintenance of positions within the established gap limits.

27. FINANCIAL RISK MANAGEMENT (continued)

27-3 Market risks (continued)

b. Market risks - banking operations (continued)

- **Profit rate risk (continued)**

The following table depicts the sensitivity to a reasonably possible change in profit rates, with other variables held constant, on the Bank's consolidated statement of income or shareholders' equity. The sensitivity of the income is the effect of the assumed changes in profit rates on the net income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at 31 December 2019 and 2018. The sensitivity of consolidated shareholders' equity is the same as sensitivity of consolidated income since the Bank does not have fixed rate FVOCI financial assets as at 31 December 2019 and 2018. All the banking book exposures are monitored and analyzed in currency concentrations, and relevant sensitivities are disclosed in SAR million.

2019		**SAR in Million**			
Currency	**Increase in basis points**	**Sensitivity of gross financing and investment income**			
		As at 31 December	Average	Maximum	Minimum
SAR	**+25**	**241**	**244**	**344**	**227**

Currency	**Decrease in basis points**	**Sensitivity of gross financing and investment income**			
		As at 31 December	Average	Maximum	Minimum
SAR	**-25**	**(241)**	**(244)**	**(344)**	**(227)**

2018		SAR in Million			
Currency	Increase in basis points	Sensitivity of gross financing and investment income			
		As at 31 December	Average	Maximum	Minimum
SAR	+25	201	204	216	193

Currency	Decrease in basis points	Sensitivity of gross financing and investment income			
		As at 31 December	Average	Maximum	Minimum
SAR	-25	(201)	(204)	(216)	(193)

Profit rate movements affect reported consolidated shareholders'equity through retained earnings, i.e. increases or decreases in financing and investment income.

Commission sensitivity of assets, liabilities and off balance sheet items:

The Bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market profit rates on its financial position and cash flows.

The Board sets limits on the level of mismatch of commission rate repricing that may be undertaken, which is monitored daily by Bank Treasury.

The table below summarizes the Bank's exposure to profit rate risks. Included in the table are the Bank's financial instruments at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

The Bank is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or re-price in a given period. The Bank manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

27. FINANCIAL RISK MANAGEMENT (continued)

27-3 Market risks (continued)

b. Market risks - banking operations (continued)

- **Profit rate risk (continued)**

Commission sensitivity of assets, liabilities and off balance sheet items (continued)

31 December 2019	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Non Commission Sensitive	Total
	(SAR'000)						
Assets							
Cash and balance with SAMA and other central banks	10,854,472	-	-	-	-	28,439,627	39,294,099
Due from banks and other financial institutions	10,479,978	357,348	6,543,435	14,677,421	-	-	32,058,182
Investments, net							
Investment in an associate	-	-	-	-	-	196,235	196,235
Investments held at amortized cost	26,001,235	1,252,000	-	-	13,956,318	1,733,534	42,943,087
FVSI investments	-	800,000	-	-	-	1,230,711	2,030,711
FVOCI investments	-	-	-	-	-	1,672,597	1,672,597
Financing, net							
Mutajara	16,244,991	14,699,701	4,218,431	4,609,125	1,804,996	-	41,577,244
Installment sale	18,271,988	16,132,170	20,059,435	93,604,177	39,656,231	-	187,724,001
Murabaha	7,598,931	5,290,277	23,372	3,217,328	1,098,158	-	17,228,066
Credit cards	1,447,050	243,758	487,515	975,171	-	-	3,153,494
Other assets	-	-	-	-	-	16,208,860	16,208,860
Total Assets	90,898,645	38,775,254	31,332,188	117,083,222	56,515,703	49,481,564	384,086,576
Liabilities							
Due to banks and other financial institutions	1,677,579	-	-	-	-	542,025	2,219,604
Customer deposits	-	-	-	-	-	284,299,851	284,299,851
Customers' time investments	17,102,278	3,001,418	1,577,663	444,867	-	-	22,126,226
Other customer accounts	-	-	-	-	-	5,979,746	5,979,746
Other liabilities	-	-	-	-	-	18,269,492	18,269,492
Total liabilities	18,779,857	3,001,418	1,577,663	444,867	-	309,091,114	332,894,919
Gap	72,118,788	35,773,836	29,754,525	116,638,355	56,515,703	(259,609,550)	51,191,657
Profit Rate Sensitivity – On consolidated statement of financial position	72,118,788	35,773,836	29,754,525	116,638,355	56,515,703	(259,609,550)	51,191,657
Profit Rate Sensitivity - Off consolidated statement of financial Position	167,512	24,528	70,934	66,574	5,697	-	335,245
Total Profit Rate Sensitivity Gap	71,951,276	35,749,308	29,683,591	116,571,781	56,510,006	(259,609,550)	50,856,412
Cumulative Profit Rate Sensitivity Gap	71,951,276	107,700,584	137,384,175	253,955,956	310,465,962	50,856,412	101,712,823

27. FINANCIAL RISK MANAGEMENT (continued)

27-3 Market risks (continued)

b. Market risks - banking operations (continued)

- **Profit rate risk (continued)**

Commission sensitivity of assets, liabilities and off balance sheet items (continued)

31 December 2018	(SAR'000)						
	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Non Commission Sensitive	Total
Assets							
Cash and balance with SAMA and other central banks	35,112,408	-	-	-	-	8,133,635	43,246,043
Due from banks and other financial institutions	11,306,178	987,681	7,810,067	11,227,583	-	1,056,251	32,387,760
Investments, net							
Investment in an associate	-	-	-	-	-	172,753	172,753
Investments held at amortized cost	23,952,560	-	-	13,318,036	2,574,169	-	39,844,765
Investments held as FVSI	-	-	-	-	1,941,584		1,941,584
FVOCI investments	-	-	-	-	1,103,463	-	1,103,463
Financing, net							
Mutajara	17,239,834	19,924,825	3,958,429	2,596,216	-	-	43,719,304
Installment sale	13,409,580	13,669,220	21,812,332	98,684,882	23,673,937	-	171,249,951
Murabaha	4,064,638	4,406,381	182	5,499,608	858,791	-	14,829,600
Credit cards	1,959,351	-	-	-	-	-	1,959,351
Other assets	-	-	-	-	-	13,576,270	13,576,270
Total Assets	107,044,549	38,988,107	33,581,010	131,326,325	30,151,944	22,938,909	364,030,844
Liabilities							
Due to banks and other financial institutions	6,534,389	-	-	-	-	755,235	7,289,624
Customer deposits	-	-	-	-	-	268,416,843	268,416,843
Customers' time investments	17,027,753	213,057	1,448,415	-	-	-	18,689,225
Other customer accounts	1,362,776	311,575	589,356	4,539,350	-	-	6,803,057
Other liabilities	-	-	-	-	-	14,526,229	14,526,229
Total liabilities	24,924,918	524,632	2,037,771	4,539,350	-	283,698,307	315,724,978
Gap	82,119,631	38,463,475	31,543,239	126,786,975	30,151,944	(260,759,398)	48,305,866
Profit Rate Sensitivity - On Statement of Financial Positions	82,119,631	38,463,475	31,543,239	126,786,975	30,151,944	(260,759,398)	48,305,866
Profit Rate Sensitivity - Off Statement of Financial Positions	439,043	-	-	-	-	-	439,043
Total Profit Rate Sensitivity Gap	81,680,588	38,463,475	31,543,239	126,786,975	30,151,944	(260,759,398)	47,866,823
Cumulative Profit Rate Sensitivity Gap	81,680,588	120,144,063	151,687,302	278,474,277	308,626,221	47,866,823	95,733,646

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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27. FINANCIAL RISK MANAGEMENT (continued)

27-3 Market risks (continued)

b. Market risks - banking operations (continued)

- **Foreign currency risks**

The tables below summarize the Bank's exposure to foreign currency exchange rate risk at 31 December 2019 and 2018 and the concentration of currency risks, Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency:

(SAR'000)

2019	UAE Dirham	Japanese Yen	Euro	Malaysian Ringgit	US Dollar	Pound Sterling	Other	Total
ASSETS								
Cash and cash equivalents	34,104	-	31,868	153,650	335,903	21,963	608,879	1,186,367
Due from banks and other financial institutions	63,357	7,508	197,512	518,468	3,120,698	24,183	102,570	4,034,296
Financing, net	-	-	-	4,846,668	5,531,037	-	4,504,063	14,881,768
Investments, net	-	-	367	894,904	2,007,106	-	255,369	3,157,746
Fixed assets	2,229	-	9,528	65,199	392,337	1,024	54,232	524,549
Other assets, net	-	-	1,889	171,338	74,963	831	21,534	270,555
Total Assets	99,690	7,508	241,164	6,650,227	11,462,044	48,001	5,546,647	24,055,281
LIABILITIES								
Due to banks and other financial institutions	193	0	61,892	129,399	375,153	17	(622,790)	(56,136)
Customers' deposits	8,861	5,013	114,609	5,429,591	3,153,602	40,639	5,083,655	13,835,970
Other liabilities	4,369	707	110,713	103,126	740,687	9,023	237,542	1,206,167
Total Liabilities	13,423	5,720	287,214	5,662,116	4,269,442	49,679	4,698,407	14,986,001
Net	86,267	1,788	(46,050)	988,111	7,192,602	(1,678)	848,240	9,069,280

(SAR'000)

2018	UAE Dirham	Japanese Yen	Euro	Malaysian Ringgit	US Dollar	Pound Sterling	Other	Total
ASSETS								
Cash and cash equivalents	25,946	-	29,291	193,088	568,393	15,538	504,016	1,336,272
Due from banks and other financial institutions	117,748	5,302	145,528	520,081	1,979,909	30,803	721,623	3,520,994
Financing, net	-	-	-	4,564,609	5,077,371	-	3,778,869	13,420,849
Investments, net	-	-	375	1,305,296	1,132,989	-	255,390	2,694,050
Fixed assets	1,226	-	6,578	41,423	269,965	993	36,782	356,967
Other assets, net	-	-	1,258	174,711	63,244	332	17,209	256,754
Total Assets	144,920	5,302	183,030	6,799,208	9,091,871	47,666	5,313,889	21,585,886
LIABILITIES								
Due to banks and other financial institutions	71	-	5,169	569,557	3,304,930	17	(564,139)	3,315,605
Customers' deposits	9,629	2,284	109,079	5,146,634	1,268,627	48,735	4,863,308	11,448,296
Other liabilities	17,305	699	97,032	117,000	695,523	8,882	196,799	1,133,241
Total Liabilities	27,005	2,983	211,280	5,833,191	5,269,080	57,634	4,495,968	15,897,142
Net	117,915	2,319	(28,250)	966,017	3,822,791	(9,968)	817,921	5,688,744

27. FINANCIAL RISK MANAGEMENT (continued)

27-3 Market risks (continued)

b. Market risks - banking operations (continued)

- **Foreign currency risks (continued)**

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Bank management has set limits on positions by currencies, which are regularly monitored to ensure that positions are maintained within the limits.

The table below shows the currencies to which the Bank has a significant exposure as at 31 December 2019 and 2018, on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonably possible movements of the currency rate against SAR, with all other variables held constant, on the consolidated statement of income (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity. A positive effect shows a potential increase in the consolidated statement of income or consolidated shareholders' equity, whereas a negative effect shows a potential net reduction in the consolidated statement of income or consolidated statement of changes in shareholders' equity.

(SAR in million)

Currency Exposures As at 31 December 2019	**Change in Currency Rate in %**	**Effect on Net Income**	**Effect on Equity**
AED	**+/-2**	**1,899**	**1,899**
USD	**+/-2**	**140,917**	**140,917**
EUR	**+/-5**	**(153)**	**(153)**
INR	**+/-5**	**(227)**	**(227)**
PKR	**+/-5**	**249**	**249**

(SAR in million)

Currency Exposures As at 31 December 2018	Change in Currency Rate in %	Effect on Net Income	Effect on Equity
AED	+/-2	2,358	2,358
USD	+/-2	76,146	76,146
EUR	+/-5	(768)	(768)
INR	+/-5	1,813	1,813
PKR	+/-5	547	547

27. FINANCIAL RISK MANAGEMENT (continued)

27-3 Market risks (continued)

b. Market risks - banking operations (continued)

- **Foreign currency risks (continued)**

Currency position

The Bank manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. At the end of the year, the Bank had the following significant net exposures denominated in foreign currencies:

	2019 SAR '000 Long/(short)	2018 SAR '000 Long/(short)
US Dollar	**7,192,602**	3,822,791
Japanese Yen	**1,788**	2,319
Euro	**(46,050)**	(28,250)
Pound Sterling	**(1,678)**	(9,969)
UAE Dirham	**86,267**	117,914
Malaysian Ringgit	**988,111**	966,017
Others	**848,240**	817,921
Total	**9,069,280**	5,688,743

c. Price risk

The Bank has certain investments which are carried at fair value through the income statement (FVSI) and fair value through other comprehensive income (FVOCI). Price risk arises due to changes in these investments.

As these investments are in a limited number of funds and are not significant to the total investment portfolio, the Bank monitors them periodically and determines the risk of holding them based on changes in market prices.

Other investments have little or no risks as these are bought for immediate sales. Investments are made only with a confirmed sale order, and therefore involve minimal risk.

- **Equity Price Risk**

Equity risk refers to the risk of decrease in fair values of equities in the Bank's non-trading investment portfolio as a result of reasonably possible changes in levels of equity indices and the value of individual stocks.

The effect on the Bank's equity investments held as FVOCI due to reasonably possible changes in equity indices, with all other variables held constant, as at 31 December is as follows:

	2019		2018	
Local Market Indices	**Change in Equity price %**	**Effect in SAR Million**	Change in Equity price %	Effect in SAR Million
Local Share Equities	**+ /- 10**	**+/- 164,824**	+ /- 10	+/- 107,910

27. FINANCIAL RISK MANAGEMENT (continued)

27-3 Market risks (continued)

d. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems, and external events.

Operational risk is inherent in most of the Bank's activities. This necessitates an integrated approach to the identification, measurement and monitoring of operational risk.

An Operational Risk Management Unit (ORMU) has been established within the Credit and Risk Management Group, which facilitates the management of Operational Risk within the Bank. ORMU facilitates the management of Operational Risk by setting policies, developing systems, tools and methodologies, overseeing their implementation and use within the business units and providing ongoing monitoring and guidance across the Bank.

The three primary operational risk management processes in the Bank are Risk Control Self Assessment, Operational Loss Database and eventual implementation of Key Risk Indicators which are designed to function in a mutually reinforcing manner.

28. GEOGRAPHICAL CONCENTRATION

a) The distribution by the geographical region of the major categories of assets, liabilities, commitments, contingencies and credit exposure accounts as of 31 December is as follows:

2019	(SAR'000)						
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other Countries	Total
Assets							
Cash and balances with SAMA and other central banks	39,206,336	69,209	-	-	18,554	-	39,294,099
Due from banks and other financial institutions	8,801,478	19,134,342	2,358,919	151,310	845,040	767,093	32,058,182
Financing, net							
Mutajara	39,952,031	1,104,910	520,303	-	-	-	41,577,244
Installment sale	183,365,159	3,035,239	-	-	1,323,603	-	187,724,001
Murabaha	11,574,137	2,131,177	-	-	3,522,752	-	17,228,066
Credit cards	3,146,433	7,061	-	-	-	-	3,153,494
Investments, net							
Investment in an associate	196,235	-	-	-	-	-	196,235
Investments held at amortized cost	40,980,924	1,008,885	-	-	953,278	-	42,943,087
FVSI Investments	1,406,111	624,233	367	-	-	-	2,030,711
FVOCI investments	1,651,690	20,907	-	-	-	-	1,672,597
Total assets	330,280,534	27,135,963	2,879,589	151,310	6,663,227	767,093	367,877,716
Liabilities							
Due to banks and other financial institutions	1,338,054	470,707	-	384,922	25,921	-	2,219,604
Customer deposits	302,177,992	5,061,753	17,726	4,544	5,125,688	18,120	312,405,823
Total liabilities	303,516,046	5,532,460	17,726	389,466	5,151,609	18,120	314,625,427
Commitments and contingencies	16,455,181	633,737	99,182	94,220	421,820	121,058	17,825,198
Credit exposure (stated at credit equivalent value)	9,727,912	-	-	-	1,908,182	-	11,636,094

28. GEOGRAPHICAL CONCENTRATION (continued)

2018	(SAR'000)						
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other Countries	Total
Assets							
Cash and balances with SAMA and other central banks	43,169,276	56,311	-	-	20,456	-	43,246,043
Due from banks and other financial institutions	10,803,907	19,835,928	755,337	61,154	919,489	11,945	32,387,760
Financing, net							
Mutajara	40,595,689	1,023,541	2,100,074	-	-	-	43,719,304
Installment sale	166,866,283	2,885,814	-	-	1,497,854	-	171,249,951
Murabaha	9,734,211	1,932,928	-	-	3,162,461	-	14,829,600
Credit cards	1,952,552	5,575	-	-	1,224	-	1,959,351
Investments, net							
Investment in an associate	172,753	-	-	-	-	-	172,753
Investments held at amortized cost	38,132,001	349,095	-	-	1,363,669	-	39,844,765
FVSI Investments	1,896,758	33,234	375	-	11,217	-	1,941,584
FVOCI investments	1,103,463	-	-	-	-	-	1,103,463
Total assets	314,426,893	26,122,426	2,855,786	61,154	6,976,370	11,945	350,454,574
Liabilities							
Due to banks and other financial institutions	6,401,763	44,133	-	329,267	514,461	-	7,289,624
Customer deposits	284,200,248	4,847,634	-	-	4,860,064	1,179	293,909,125
Total Liabilities	290,602,011	4,891,767	-	329,267	5,374,525	1,179	301,198,749
Commitments and contingencies	12,623,480	98,315	2,262	-	88,198	-	12,812,255
Credit exposure (stated at credit equivalent value)	4,401,104	-	-	-	2,081,332	-	6,482,436

28. GEOGRAPHICAL CONCENTRATION (continued)

b) The distributions by geographical concentration of non-performing financing and allowance for impairment of financing are as follows:

2019	**(SAR'000)**			
	Kingdom of Saudi Arabia	**GCC and Middle East**	**South East of Asia**	**Total**
Non-performing				
Mutajara	**1,642,684**	**5,420**	**38,970**	**1,687,074**
Installment sale	**538,829**	**24,736**	**18,412**	**581,977**
Murabaha	**-**	**-**	**-**	**-**
Credit cards	**47,742**	**-**	**-**	**47,742**
Allowance for impairment of financing				
Mutajara	**(1,285,340)**	**(1,088)**	**(19,427)**	**(1,305,855)**
Installment sale	**(522,160)**	**(7,734)**	**(497)**	**(530,391)**
Murabaha	**(144,794)**	**-**	**(10,751)**	**(155,545)**
Credit cards	**(9,083)**	**-**	**(287)**	**(9,370)**

2018	(SAR'000)			
	Kingdom of Saudi Arabia	GCC and Middle East	South East of Asia	Total
Non-performing				
Mutajara	991,751	5,959	26,610	1,024,320
Installment sale	559,630	14,942	16,969	591,541
Murabaha	536,865	108,621	17,084	662,570
Credit cards	11,874	-	7	11,881
Allowance for impairment of financing				
Mutajara	(837,349)	(2,066)	(2,958)	(842,373)
Installment sale	(453,000)	(10,185)	(4,244)	(467,429)
Murabaha	(504,296)	(108,500)	(17,084)	(629,880)
Credit cards	(2,970)	-	-	(2,970)

Refer to Note 7-1b for performing financing.

29. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Determination of fair value and fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted prices in active markets for the same instrument (i.e. without modification or additions).

Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data.

Level 3: valuation techniques for which any significant input is not based on observable market data.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction takes place either:

29. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

- In the accessible principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous accessible market for the asset or liability.

Carrying amounts and fair value:

The following table shows the carrying amounts and fair values of financial assets and financial liabilities as at 31 December, including their levels in the fair value hierarchy (refer note 2d (ii)). It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

2019	Carrying value	Level 1	Level 2	Level 3	Total
Financial assets					
Financial assets measured at fair value					
FVSI Investments – Mutual funds	1,230,711	-	1,230,711	-	1,230,711
FVOCI equity investments	1,672,597	1,648,243	-	24,355	1,672,598
FVSI Sukuk	800,000			800,000	800,000
Financial assets not measured at fair value					
Due from banks and other financial institutions	32,058,182	-	-	32,300,842	32,300,842
Investments held at amortized cost					
- Murabaha with Saudi Government and SAMA	24,991,978	-	-	25,268,177	25,268,177
- Sukuk	17,973,379	-	-	18,357,588	18,357,588
Gross Financing	256,702,401			275,942,492	275,942,492
Total	335,429,248	1,648,243	1,230,711	352,693,454	355,572,408
Financial liabilities					
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	2,219,604	-	-	2,219,642	2,219,642
Customers' deposits	312,405,823	-	-	312,405,823	312,405,823
Total	314,625,427	-	-	314,625,465	314,625,465

29. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

2018	(SAR'000)				
Financial assets	Carrying value	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
FVSI Investments – Mutual funds	1,141,584	-	1,141,584	-	1,141,584
FVOCI equity investments	1,103,463	1,079,101	-	24,362	1,103,463
FVSI Sukuk	800,000	-	-	800,000	800,000
Financial assets not measured at fair value					
Due from banks and other financial institutions	32,387,760	-	-	32,495,110	32,495,110
Investments held at amortized cost					
- Murabaha with Saudi Government and SAMA	22,477,145	-	-	22,675,612	22,675,612
- Sukuk	17,395,957	-	-	17,404,968	17,404,968
Gross Financing	239,590,677	-	-	242,364,635	242,364,635
Total	314,896,586	1,079,101	1,141,584	315,764,687	317,985,372
Financial liabilities					
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	7,289,624	-	-	7,287,557	7,287,557
Customers' deposits	293,909,125	-	-	293,909,125	293,909,125
Total	301,198,749	-	-	301,196,682	301,196,682

FVSI investments classified as level 2 include mutual funds, the fair value of which is determined based on the latest reported net assets value (NAV) as at the date of statement of consolidated financial position.

The level 3 financial assets measured at fair value represent investments recorded at cost. The carrying value of these investments approximates fair value.

Gross financing classified as level 3 has been valued using expected cash flows discounted at relevant SIBOR as at 31 December 2019 and 2018. Investments held at amortized cost, due to / from banks and other financial institutions have been valued using the actual cash flows discounted at relevant SIBOR/ SAMA murabaha rates as at 31 December 2019 and 2018.

The value obtained from the relevant valuation model may differ from the transaction price of a financial instrument. The difference between the transaction price and the model value, commonly referred to as 'day one profit and loss', is either amortized over the life of the transaction, deferred until the instrument's fair value can be determined using market observable data, or realized through disposal. Subsequent changes in fair value are recognized immediately in the consolidated statement of income without reversal of deferred day one profits and losses.

During the current year, no financial assets / liabilities have been transferred between level 1 and/ or level 2 of the fair value hierarchy.

30. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank transacts business with related parties. The related party transactions are governed by limits set by the Banking Control Law and the regulations issued by SAMA. The nature and balances resulting from such transactions as at and for the year ended 31 December are as follows:

	(SAR'000)	
Related parties	**2019**	2018
Members of the Board of Directors		
Mutajara	**67,680**	76,404
Contingent liabilities (*)	**20**	46,258
Current accounts	**320,085**	219,330
Companies and establishments guaranteed by members of the Board of Directors		
Mutajara	**7,244,210**	8,040,701
Contingent liabilities (*)	**877,158**	952,343
Associate		
Contributions receivable	**142,152**	252,706
Payable against claims	**194,312**	144,640
Bank balances	**332,713**	274,705

(*) = off balance sheet items.

Income and expenses pertaining to transactions with related parties included in the consolidated financial statements for the years ended 31 December are as follows:

	(SAR'000)	
	2019	2018
Income from financing and other financial assets	**135,422**	139,496
Mudaraba Fees	**79,316**	68,272
Employees' salaries and benefits (air tickets)	**4,297**	4,142
Rent and premises related expenses	**5,521**	2,238
Contribution – policies written	**861,880**	1,059,392
Claims incurred and notified during the period	**662,212**	900,207
Claims paid	**615,901**	905,840
Board of Directors' remunerations	**6,140**	5,945

30. RELATED PARTY TRANSACTIONS (continued)

The amounts of compensations recorded in favor of or paid to the Board of Directors and the executive management personnel during the years ended 31 December are as follows:

	(SAR'000)	
	2019	2018
Short-term benefits	**99,533**	85,579
Provision for employees' end of service benefits	**10,669**	11,536

The executive management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

31. MUDARABA FUNDS

Mudaraba funds comprise the following as at 31 December:

	(SAR'000)	
	2019	2018
Customers' Mudaraba and investments	**23,255,708**	21,070,580
Total	**23,255,708**	21,070,580

Mudaraba and investments accounts represents customers' investment portfolio managed by Al Rajhi Capital Company and are considered as off balance sheet. Consistent with the accounting policies of the Group, such balances are not included in the consolidated financial statements as these are held by the Group in a fiduciary capacity.

32. SPECIAL COMMISSIONS EXCLUDED FROM THE CONSOLIDATED STATEMENT OF INCOME

The following represents the movements in charities account, which is included in other liabilities (see note 13) for the year ended 31 December:

	(SAR'000)	
	2019	2018
Balance at beginning of the year	**56,350**	16,854
Additions during the year	**52,691**	40,520
Payments made during the year	**(98,047)**	(1,024)
Balance at end of the year	**10,994**	56,350

33. INVESTMENT MANAGEMENT SERVICES

The Group offers investment services to its customers. The Group has established a number of Mudaraba funds in different investment aspects. These funds are managed by the Group's Investment Department, and a portion of the funds is also invested in participation with the Group. The Group also offers investment management services to its customers through its subsidiary, which include management of funds with total assets under management of SAR 42,084 million (2018: SAR 41,294 million). The mutual funds are not controlled by the Group and neither are under significant influence to be considered as associates / subsidiaries. Mutual funds' financial statements are not included in the consolidated financial statements of the Group. The Group's share of investments in these funds is included under investments, and is disclosed under related party transactions. Funds invested by the Group in those investment funds amounted to SAR 981 million at 31 December 2019 (2018: SAR 1,142 million).

34. CAPITAL ADEQUACY

The Bank's objectives when managing capital are to comply with the capital requirements set by SAMA to safeguard the Bank's ability to continue as a going concern; and to maintain a strong capital base.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management. SAMA requires the banks to hold the minimum level of the regulatory capital and also to maintain a ratio of total regulatory capital to the risk-weighted assets at or above 8%.

The Bank monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Bank's eligible capital with its consolidated statement of financial position, commitments and contingencies, to reflect their relative risk as of 31 December:

	(SAR'000)	
	2019	2018
Credit risk weighted assets	**234,299,968**	222,309,112
Operational risk weighted assets	**30,784,119**	28,094,351
Market risk weighted assets	**7,236,637**	4,102,847
Total Pillar I - risk weighted assets	**272,320,724**	254,506,310

	(SAR'000)	
	2019	2018
Tier I – capital	**51,191,657**	48,305,866
Tier II capital	**2,928,750**	2,778,864
Total tier I & II capital	**54,120,407**	51,084,730
Capital Adequacy Ratio %		
Tier I ratio	**18.80%**	18.98%
Tier I and II ratio	**19.87%**	20.07%

35. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The new and amended standards and interpretations that are issued as listed below, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group is currently assessing the impact of these standards on the future financial statements and intends to adopt these new and amended standards, if applicable, when they become effective.

- IFRS 17 Insurance Contracts
- Amendments to IFRS 3: Definition of a Business
- Amendments to IAS 1 and IAS 8: Definition of Material

IFRS 17 Insurance Contracts
In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e. life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2022, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not expected to have a significant impact on the Group's consolidated financial statements.

Amendments to IFRS 3: Definition of a Business
In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: Definition of Material
In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material is not expected to have a significant impact on the Group's financial statements.

36. SUBSEQUENT EVENTS

The Board of Directors proposed, on 2nd of February 2020, a distribution of final dividends to the shareholders for the year amounting to SAR 3,750 million, of SAR 1.5 per share.

37. RESTATEMENT AND RECLASSIFICATION OF PRIOR YEAR FIGURES

a. Zakat

The Group is subject to Zakat in accordance with the regulations of the General Authority of Zakat and Income Tax ("GAZT"). Zakat expense is charged to the consolidated statement of income. Zakat is not accounted for as income tax, and as such no deferred tax is calculated relating to zakat.

The change in the accounting treatment for zakat (as explained in note 2) has the following impact on the line items of the consolidated statement of income, consolidated statement of financial position and consolidated statement of changes in shareholders' equity.

As at and for the year ended 31 December 2018:

Financial statement impacted	Account	As previously stated as at 31 December 2018 (given the retrospective effect of bonus share issued) SAR'000	Effect of restatement SAR'000	As restated as at 31 December 2018 SAR'000
Consolidated statement of changes in shareholders' equity	Provision for zakat (retained earnings)	6,367,949	(6,367,949)	-
Consolidated statement of income	Zakat	-	6,367,949	6,367,949
Consolidated statement of income	Earnings per share	4.12	(2.55)	1.57

There has been no impact on the Group's retained earnings and total shareholders' equity balances as at 1 January 2018 as a result of this change in accounting for Zakat.

As a major event during 2018, the Bank reached a settlement agreement with the General Authority for Zakat and Income Tax (GAZT), to settle the Zakat liability amounting to SAR 5,405,270,925 for the years up to 31 December 2017. The settlement agreement required the Bank to settle 20% of the agreed zakat liability in 2018, and the remaining will be divided equally over the period of five years. Accordingly, the aforementioned zakat liability was re-classified from other reserves to other liabilities and was charged to the consolidated statement of income.

b. Capitalization of property and equipment

The Bank has performed an analysis of capital work in progress reported under property and equipment in the consolidated statement of financial position. As a result of that analysis, the management identified certain assets amounting to SAR 1,902 million that were not capitalized on a timely basis which has resulted in an understatement of depreciation expenses in the previous years.

37. RESTATEMENT AND RECLASSIFICATION OF PRIOR YEAR FIGURES (continued)

2) Capitalization of property and equipment (continued)

The correction of the above error has resulted in the following impact on the line items of the consolidated statement of income, consolidated statement of financial position and consolidated statement of changes in shareholders' equity as detailed below:

As at 1 January 2018:

Financial statement impacted	Account	As previously stated as at 1 January 2018 SAR'000	Effect of Restatement SAR'000	As restated as at 1 January 2018 SAR'000
Consolidated statement of financial position	Property and equipment	7,858,127	(87,187)	7,770,940
Consolidated statement of changes in shareholders' equity	Retained earnings	13,906,736	(87,187)	13,819,549

As at and for the year ended 31 December 2018:

Financial statement impacted	Account	As previously stated as at and for the year ended 31 December 2018 (given the retrospective effect of bonus share issued) SAR'000	Effect of Restatement SAR'000	As restated as at and for year ended 31 December 2018 SAR'000
Consolidated statement of financial position	Property and equipment	8,897,587	(248,152)	8,649,435
Consolidated statement of changes in shareholders' equity	Retained earnings	12,747,323	(248,152)	12,499,171
Consolidated statement of income	Depreciation	442,171	160,965	603,136
Consolidated statement of income	Earnings per share	4.12	(0.06)	4.06

3) Reclassifications

Financing related fee amortization, which had previously been included in fees from banking services, is now included in gross financing and investment income. The change was made to reflect financing related fee amortization as a yield adjustment to gross financing income. Accordingly, the previously reported amounts in the consolidated financial statements for the year ended 31 December 2018 have been reclassified to conform to the current year presentation and therefore, this change increases the previously reported gross financing and investment income by SAR 1,234 million and reduces the fee from banking services accordingly. In addition, an amount of SAR 1,580 million has been reclassified from financing to due from banks and other financial institutions as at 31 December 2018.

37. RESTATEMENT AND RECLASSIFICATION OF PRIOR YEAR FIGURES (continued)

4) Other adjustment

The Bank has conducted a review of the timing of the recognition of up-front fees and financing income relating to retail credit products. As a result of the review, the method of the application of the accounting policy on timing of the recognition of up-front fees and financing income has been amended to appropriately reflect the systematic deferral of the recognition of such income. Based on materiality considerations, an adjustment of SAR 799.4 million was only made to the opening retained earnings as at 1 January 2018, with a corresponding adjustment to deferred income as at that date.

38. APPROVAL OF THE BOARD OF DIRECTORS

The consolidated financial statements were approved by the Board of Directors on 23 Jumada Al Thani 1441H (corresponding to 17 February 2020).

مصرف الراجحي
alrajhi bank