

**AL RAJHI BANKING AND INVESTMENT
CORPORATION**
(A SAUDI JOINT STOCK COMPANY)

**INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS (UNAUDITED)**
**FOR THE THREE-MONTH AND NINE-MONTH
PERIODS ENDED 30 SEPTEMBER 2019**



KPMG Al Fozan & Partners
Certified Public Accountants



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 September 2019, and the interim condensed consolidated statements of income and comprehensive income for the three-month and nine-month periods then ended, and the interim condensed consolidated statements of changes in shareholders' equity and cash flows for the nine-month period then ended, and other explanatory notes (the "interim condensed consolidated financial statements"). Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with 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 Arabian Monetary Authority ("SAMA"), certain capital adequacy information has been disclosed in note 16 to the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note 16 to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

KPMG Al Fozan & Partners
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7 Rabi' Al-awwal 1441H
 (4 November 2019)

AL RAJHI BANKING AND INVESTMENT CORPORATION
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 September	31 December 2018	30 September 2018
		2019 SAR'000	SAR'000	SAR'000
	Notes	(Unaudited)	(Audited)	(Unaudited)
ASSETS				
Cash and balances with Saudi Arabian Monetary Authority ("SAMA") and other central banks	3	28,610,612	43,246,043	39,959,715
Due from banks and other financial institutions	4	33,160,144	32,387,760	21,690,167
Investments, net	5	45,945,916	43,062,565	47,854,679
Financing, net	6	244,585,965	231,758,206	232,023,796
Investment properties, net		1,388,145	1,297,590	1,301,359
Property and equipment, net		10,624,210	8,897,587	8,484,830
Other assets, net		3,969,191	3,629,245	4,266,912
TOTAL ASSETS		368,284,183	364,278,996	355,581,458
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Due to banks and other financial institutions	7	3,172,813	7,289,624	6,544,097
Customers' deposits	8	298,811,018	293,909,125	288,836,370
Other liabilities		17,119,513	14,526,229	8,225,935
Total liabilities		319,103,344	315,724,978	303,606,402
Shareholders' equity				
Share capital	15	25,000,000	16,250,000	16,250,000
Statutory reserve		19,250,000	16,250,000	16,250,000
Other reserves	10	(322,726)	(349,555)	5,074,087
Retained earnings		5,253,565	12,747,323	14,400,969
Proposed gross dividends		-	3,656,250	-
Total shareholders' equity		49,180,839	48,554,018	51,975,056
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		368,284,183	364,278,996	355,581,458

The accompanying notes from 1 to 19 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 COMPREHENSIVE INCOME
(UNAUDITED)

	For the three-month period ended 30 September		For the nine-month period ended 30 September	
	2019 SAR'000	2018 SAR'000	2019 SAR'000	2018 SAR'000
Net income for the period	2,829,327	2,515,983	8,006,242	7,296,488
<i>Other comprehensive income:</i>				
<i>Items that may not be reclassified to the interim condensed consolidated statement of income</i>				
- Re-measurement of employees' end of service benefits ("EOSB")	-	-	(58,197)	-
- Net change in fair value of equity investments held at fair value through other comprehensive income ("FVOCI Investments")	(28,673)	(62,121)	95,840	(28,800)
<i>Items that may be reclassified to the interim condensed consolidated statement of income</i>				
- Exchange difference on translation of foreign operations	(9,516)	(19,317)	(10,814)	(49,006)
Total comprehensive income for the period	2,791,138	2,434,545	8,033,071	7,218,682

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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)
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2019 AND 2018

	Share capital SAR'000	Statutory reserve SAR'000	Other reserves SAR'000	Retained earnings SAR'000	Proposed gross dividends SAR'000	Total SAR'000
For the nine-month period ended 30 September 2019						
Balance at 1 January 2019	16,250,000	16,250,000	(349,555)	12,747,323	3,656,250	48,554,018
Net change in fair value of FVOCI investments	-	-	95,840	-	-	95,840
Net movement in foreign currency translation reserve	-	-	(10,814)	-	-	(10,814)
Re-measurement of employee EOSB	-	-	(58,197)	-	-	(58,197)
Net other comprehensive income recognized directly in equity	-	-	26,829	-	-	26,829
Net income for the period	-	-	-	8,006,242	-	8,006,242
Total comprehensive income for the period	-	-	26,829	8,006,242	-	8,033,071
Transfer to statutory reserve	-	3,000,000	-	(3,000,000)	-	-
Dividend for second half of 2018	-	-	-	-	(3,656,250)	(3,656,250)
Bonus shares issued	8,750,000	-	-	(8,750,000)	-	-
Dividend for first half of 2019	-	-	-	(3,750,000)	-	(3,750,000)
Balance at 30 September 2019	25,000,000	19,250,000	(322,726)	5,253,565	-	49,180,839
For the nine-month period ended 30 September 2018						
Balance at 31 December 2017 (restated note 11)	16,250,000	16,250,000	5,281,682	13,906,736	4,062,500	55,750,918
Impact of adopting IFRS 9	-	-	(129,789)	(2,752,899)	-	(2,882,688)
Other adjustment	-	-	-	(799,356)	-	(799,356)
Restated balance at 1 January 2018	16,250,000	16,250,000	5,151,893	10,354,481	4,062,500	52,068,874
Net change in fair value of FVOCI investments	-	-	(28,800)	-	-	(28,800)
Net movement in foreign currency translation reserve	-	-	(49,006)	-	-	(49,006)
Net other comprehensive income recognized directly in equity	-	-	(77,806)	-	-	(77,806)
Restated net income for the period	-	-	-	7,296,488	-	7,296,488
Total comprehensive income for the period	-	-	(77,806)	7,296,488	-	7,218,682
Dividends for the second half of 2017	-	-	-	-	(4,062,500)	(4,062,500)
Dividends for the first half of 2018	-	-	-	(3,250,000)	-	(3,250,000)
Balance at 30 September 2018 (restated note 11)	16,250,000	16,250,000	5,074,087	14,400,969	-	51,975,056

The accompanying notes from 1 to 19 form an integral part of these interim condensed consolidated financial statements.

Authorized Board Member 

Chief Executive Officer 

Chief Financial Officer 

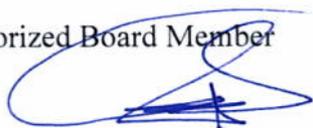
AL RAJHI BANKING AND INVESTMENT CORPORATION
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2019 AND 2018

	Note	2019 SAR'000	2018 SAR'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before Zakat		8,895,824	7,524,467
Adjustments to reconcile net income to net cash (used in) / from operating activities:			
Gain on investments held at fair value through statement of income (FVSI investments)		(11,096)	(3,960)
Depreciation and amortization		591,076	328,681
Depreciation of investment properties		11,956	12,647
Impairment charge for financing and other financial assets, net	6	1,107,319	1,200,912
Share of profit of an associate		(13,238)	(32,168)
Net (increase) / decrease in operating assets			
Statutory deposit with SAMA and other central banks		(519,472)	(1,188,974)
Due from banks and other financial institutions		(5,176,748)	(6,938,759)
Financing		(13,935,079)	(2,571,823)
FVSI investments		21,484	91,554
Other assets, net		(367,829)	748,552
Net increase / (decrease) in operating liabilities			
Due to banks and other financial institutions		(4,116,811)	1,021,530
Customers' deposits		4,901,893	15,779,925
Other liabilities		2,580,900	(1,227,629)
Net cash (used in) / from operating activities		<u>(6,029,821)</u>	<u>14,744,955</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment		(1,026,768)	(955,384)
Purchase of FVOCI / FVSI investments		(190,832)	(342,522)
Proceeds from sale of investments held at amortized cost		69,450,503	69,335,960
Purchase of investment property		(102,511)	-
Purchase of investments held at amortized cost		(72,027,683)	(80,729,335)
Net cash used in investing activities		<u>(3,897,291)</u>	<u>(12,691,281)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(7,406,250)	(7,312,500)
Zakat paid		(2,024,443)	(211,291)
Payment against lease obligations		(201,464)	-
Net cash used in financing activities		<u>(9,632,157)</u>	<u>(7,523,791)</u>

The accompanying notes from 1 to 19 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
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INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2019 AND 2018

	Note	2019 SAR'000	2018 SAR'000
NET DECREASE IN CASH AND CASH EQUIVALENTS		(19,559,269)	(5,470,117)
Cash and cash equivalents at beginning of the period		<u>29,786,503</u>	<u>31,222,195</u>
Cash and cash equivalents at the end of the period	12	<u>10,227,234</u>	<u>25,752,078</u>
Gross financing and investment income received during the period		11,944,134	9,804,517
Return on customers', banks' and financial institutions' time investments paid during the period		<u>(225,238)</u>	<u>(561,939)</u>
<u>Non-cash transactions:</u>			
Net change in fair value of FVOCI investments		<u>95,840</u>	<u>(28,800)</u>

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Authorized Board Member



Chief Executive Officer



Chief Financial Officer



AL RAJHI BANKING AND INVESTMENT CORPORATION
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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS (UNAUDITED)
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER
2019**

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 Qada 1407H (corresponding to 29 June 1987) and in accordance with Article 6 of the Council of Ministers’ Resolution No. 245, dated 26 Shawwal 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 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 (see note 2.III).

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

I. BASIS OF PREPARATION

The interim condensed consolidated financial statements of the Group as at and for the period ended 30 September 2019 have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting (“IAS 34”) as endorsed in the Kingdom of Saudi Arabia.

The consolidated financial statements of the Group as at and for the period and year ended 31 March 2019 and 31 December 2018, respectively, were prepared in compliance with the IAS 34 and the 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. BASIS OF PREPARATION (CONTINUED)

On 17 July 2019, SAMA instructed the banks in the Kingdom of Saudi Arabia to account for zakat in the statement of income. This aligns with the IFRS and its interpretations as issued by the International Accounting Standards Board (“IASB”) and as endorsed in the Kingdom of Saudi Arabia, and with the other standards and pronouncements that are issued by 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 disclose in note 11 and effect of change in note 11 to the interim condensed consolidated Financial statements. The Bank has adopted IFRS 16 leases from 1 January 2019. The change in accounting policy due to this new standard are disclosed in note 2.

II. BASIS OF CONSOLIDATION

The interim condensed consolidated financial statements comprise the financial statements of the Group. 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.

III. SUBSIDIARIES

Subsidiaries are the entities that are controlled by the Group. The Group controls an entity when it is exposed, or has a right, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over that entity.

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
- The Group’s current and potential voting rights granted by equity instruments such as shares and options.

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 are ceased 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 are included in the interim condensed consolidated statements of comprehensive income from the date of the acquisition or up to the date of disposal, as appropriate.

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.

AL RAJHI BANKING AND INVESTMENT CORPORATION
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

III. SUBSIDIARIES (CONTINUED)

As at 30 September 2019, the following subsidiaries were included in the interim condensed consolidated financial statements:

Name of subsidiaries	Shareholding %		
	2019	2018	
Al Rajhi Capital Company – KSA	100%	100%	A closed joint stock company registered in Kingdom of Saudi Arabia to act as principal agent and/or to provide brokerage, underwriting, managing, advisory, arranging and custodial services.
Al Rajhi Development 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.
Al Rajhi Takaful Agency Company – KSA	99 %	99%	A limited liability company registered in Kingdom of Saudi Arabia to act as an agent for insurance 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 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.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS (UNAUDITED)
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER
2019**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

III. SUBSIDIARIES (CONTINUED)

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

IV. IMPACT OF CHANGE IN ACCOUNTING POLICY DUE TO ADOPTION OF NEW STANDARDS

Effective 1 January 2019 the Group adopted IFRS 16, Leases and the impact of the adoption of this standard is explained below.

In addition to the adoption of IFRS 16, several other amendments and interpretations apply for the first time in 2019, but these do not have an impact on the interim condensed consolidated financial statements of the Bank.

Adoption of 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 low value assets. 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 useful life.

The Group has opted for the modified retrospective application method that is permitted by IFRS 16. As a result of the initial application of IFRS 16 to operating leases, the right to use the leased assets was generally measured at the amount of the lease liability, using the incremental financing rate that is applicable to the Bank at 1 January 2019 (the time of initial application), which was approximately 4.6%. The right of use assets is 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 extension 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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

V. AMENDMENTS TO ACCOUNTING POLICIES

The accounting policies, estimates and assumptions used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2018, except for the policies explained below due to the adoption of IFRS 16 and change in accounting for Zakat.

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 Group and the Group can direct the usage of such assets.

Right of Use Assets

The Group applies the cost model, and measures right of use assets at cost:

- a) less any accumulated depreciation and any accumulated impairment losses; and
- b) adjusted for any re-measurement of the lease liability for lease modifications.

Generally, a RoU asset would be equal to the lease liability. However, if there are additional costs such as site preparation, non-refundable deposits, application money, other expenses related to the transaction, etc., these need to be added to the RoU asset value.

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 interim condensed consolidated statement of financial position.

Accounting for Zakat

As mentioned above, the basis of preparation has been changed for the period ended 30 September 2019 as a result of the issuance of latest instructions from SAMA dated 17 July 2019. Previously, zakat 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 11 to the interim condensed consolidated financial statements. The change has resulted in a reduction of reported income of the Group for the nine-month period ended 30 September 2018 by SAR 228 million. The change has had no impact on the interim condensed consolidated statement of cash flows for the period ended 30 September 2018.

AL RAJHI BANKING AND INVESTMENT CORPORATION
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019

3. CASH AND BALANCES WITH SAMA AND OTHER CENTRAL BANKS

Cash and balances with SAMA and central banks comprise of the following:

	30 September 2019 (Unaudited) SAR'000	31 December 2018 (Audited) SAR'000	30 September 2018 (Unaudited) SAR'000
Cash in hand	7,639,522	8,133,635	9,458,892
Statutory deposit	19,963,666	19,444,194	19,141,225
Current account with SAMA	256,424	293,214	270,598
Mutajara with SAMA	751,000	15,375,000	11,089,000
Total	28,610,612	43,246,043	39,959,715

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.

4. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Due from banks and other financial institutions comprise the following:

	30 September 2019 (Unaudited) SAR'000	31 December 2018 (Audited) SAR'000	30 September 2018 (Unaudited) SAR'000
Current accounts	861,609	778,769	533,572
Mutajara	32,298,535	31,608,991	21,156,595
Total	33,160,144	32,387,760	21,690,167

AL RAJHI BANKING AND INVESTMENT CORPORATION
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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019

5. INVESTMENTS

Investments comprise the following:

	30 September 2019 (Unaudited) SAR'000	31 December 2018 (Audited) SAR'000	30 September 2018 (Unaudited) SAR'000
Investment in an associate	185,991	172,753	156,993
Investments held at amortized cost			
Murabaha with Saudi Government and SAMA	24,968,100	22,477,145	27,469,050
Sukuk	17,498,831	17,395,957	17,182,333
Less: Impairment (Stage 1)	(28,337)	(28,337)	(28,337)
Total investments held at amortized cost	42,438,594	39,844,765	44,623,046
FVSI investments			
Mutual funds	1,370,963	1,141,584	1,256,234
Sukuk	800,000	800,000	800,000
Total FVSI investment	2,170,963	1,941,584	2,056,234
FVOCI investments			
Equity investments	1,150,368	1,103,463	1,018,406
Total investments	45,945,916	43,062,565	47,854,679

6. FINANCING, NET

Net financing comprises the following:

	30 September 2019 (Unaudited) SAR'000	31 December 2018 (Audited) SAR'000	30 September 2018 (Unaudited) SAR'000
Held at amortized cost			
Installment sales	181,740,820	174,683,067	176,489,715
Mutajara	46,557,982	45,972,593	47,101,647
Murabaha	18,344,670	14,671,326	13,733,452
Credit cards	2,832,072	1,973,379	823,250
Performing financing	249,475,544	237,300,365	238,148,064
By segments			
Retail	179,160,488	170,482,453	171,269,859
Corporate	70,315,056	66,817,912	66,878,205
Performing financing	249,475,544	237,300,365	238,148,064
Non-performing financing	2,371,420	2,290,312	2,018,663
Gross financing	251,846,964	239,590,677	240,166,727
Provision for financing impairment	(7,260,999)	(7,832,471)	(8,142,931)
Financing, net	244,585,965	231,758,206	232,023,796

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6. FINANCING, NET (continued)

The movement in the allowance for impairment of financing for the nine-month period ended 30 September is as follows:

<u>2019</u>	<u>Total SAR'000</u>
Opening impairment allowance as at 1 January 2019	7,832,471
Provided for in the period	1,520,072
Bad debts written-off against provision	(2,091,544)
Balance at the end of the period	<u>7,260,999</u>

Allowance for impairment of financing and other financial assets that is charged to the interim condensed consolidated statement of income for the nine-month period ended 30 September ٢٠١٩ comprise of the following:

	<u>SAR'000</u>
Provided for the period	1,520,072
Recovery of written-off financing, net	(672,753)
Allowance for financing impairment, net	847,319
Allowance for other financial assets impairment, net	260,000
Charge for the period	<u>1,107,319</u>

7. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Due to banks and other financial institutions comprise the following:

	30 September 2019 (Unaudited) SAR'000	31 December 2018 (Audited) SAR'000	30 September 2018 (Unaudited) SAR'000
Current accounts	475,613	925,945	992,178
Banks' time investments	<u>2,697,200</u>	6,363,679	5,551,919
Total	<u>3,172,813</u>	7,289,624	6,544,097

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8. CUSTOMERS' DEPOSITS

Customers' deposits by type comprise the following:

	30 September 2019 (Unaudited) SAR'000	31 December 2018 (Audited) SAR'000	30 September 2018 (Unaudited) SAR'000
Demand deposits	283,569,115	268,416,842	269,249,959
Customers' time investments	9,559,314	18,689,225	14,395,864
Other customer accounts	5,682,589	6,803,058	5,190,547
Total	298,811,018	293,909,125	288,836,370

9. CONTINGENT LIABILITIES

Contingent liabilities comprise the following:

	30 September 2019 (Unaudited) SAR'000	31 December 2018 (Audited) SAR'000	30 September 2018 (Unaudited) SAR'000
Letters of credit	1,305,683	982,769	881,960
Acceptances	281,221	469,889	332,116
Letters of guarantee	5,119,494	4,877,161	5,027,785
Irrevocable commitments to extend credit	7,641,620	6,482,436	3,197,811
Total	14,348,018	12,812,255	9,439,672

The Bank is subject to legal proceedings in the ordinary course of business. There was no significant change in the status of legal proceedings as disclosed as at 31 December 2018.

10. OTHER RESERVES

Other reserves include FVOCI investments reserve, foreign currency translation reserve and employee EOSB reserve.

11. 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 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.

The change in the accounting treatment for zakat and income tax (as explained in note 2) has the following impact on the line items of the interim condensed consolidated statement of income, interim condensed consolidated statement of financial position and interim condensed consolidated statement of changes in shareholders' equity.

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11. ZAKAT (continued)

As at and for the nine-month period ended 30 September 2018:

Financial statement impacted	Account	Before the restatement for the nine-month period ended 30 September 2018 SAR'000	Effect of Restatement SAR'000	As restated as at and for the nine-month period ended 30 September 2018 SAR'000
Interim condensed consolidated statement of changes in shareholders' equity	Provision for zakat (retained earnings)	227,979	(227,979)	-
Interim condensed consolidated statement of income	Zakat	-	227,979	227,979
Interim condensed consolidated statement of income	Earnings per share	3.01	(0.09)	2.92

As at and for the three -month period ended 30 September 2018:

Financial statement impacted	Account	Before the restatement for the three -month period ended 30 September 2018 SAR'000	Effect of Restatement SAR'000	As restated as at and for the three -month period ended 30 September 2018 SAR'000
Interim condensed consolidated statement of changes in shareholders' equity	Provision for zakat (retained earnings)	57,044	(57,044)	-
Interim condensed consolidated statement of income	Zakat expense	-	57,044	57,044
Interim condensed consolidated statement of income	Earnings per share	1.03	(0.02)	1.01

There has been no impact on the Group's retained earnings and shareholders' equity balances as at 31 December 2018 and 1 January 2018 as a result of this change in accounting.

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 requires the Bank to settle 20% in the first year, 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.

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12. CASH AND CASH EQUIVALENTS

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

	30 September 2019 (Unaudited) SAR'000	31 December 2018 (Audited) SAR'000	30 September 2018 (Unaudited) SAR'000
Cash in hand	7,639,522	8,133,635	9,458,892
Due from banks and other financial institutions maturing within 90 days from the date of purchase	1,580,288	5,984,654	4,933,588
Balances with SAMA and other central banks (current accounts)	256,424	293,214	270,598
Mutajara with SAMA	751,000	15,375,000	11,089,000
Cash and cash equivalents	10,227,234	29,786,503	25,752,078

13. 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 customers' deposits, credit facilities, customer debit current accounts (overdrafts) and fees from banking services.
Corporate segment:	Corporate customers' deposits, 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 segment:	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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13. OPERATING SEGMENTS (CONTINUED)

The Bank's total assets and liabilities as at 30 September 2019 and 2018 together with the total operating income and expenses, and net income for the nine-month periods then ended, for each business segment, are analyzed as follows:

30 September 2019 (Unaudited)	Retail segment SAR'000	Corporate segment SAR'000	Treasury segment SAR'000	Investment services and brokerage segment SAR'000	Total SAR'000
Total assets	198,019,313	64,264,782	102,816,161	3,183,927	368,284,183
Total liabilities	287,101,154	23,163,778	8,714,588	123,824	319,103,344
Financing and investment income from external customers	8,137,822	2,511,845	1,885,601	15,706	12,550,974
Inter-segment operating income / (expense)	1,137,073	(880,384)	(256,689)	-	-
Gross financing and investment income	9,274,895	1,631,461	1,628,912	15,706	12,550,974
Return on customers', banks' and financial institutions' time investments	(141,418)	(105,210)	(136,080)	-	(382,708)
Net financing and investment income	9,133,477	1,526,251	1,492,832	15,706	12,168,266
Fees from banking services, net	777,376	288,185	197,308	268,115	1,530,984
Exchange income, net	113,063	53,154	413,549	-	579,766
Other operating income, net	70,266	16,897	87,196	27,905	202,264
Total operating income	10,094,182	1,884,487	2,190,885	311,726	14,481,280
Depreciation and amortization	(536,327)	(10,684)	(39,400)	(4,665)	(591,076)
Impairment charge for financing and other financial assets, net	(975,408)	(132,571)	660	-	(1,107,319)
Other operating expenses	(3,248,373)	(233,096)	(299,221)	(106,371)	(3,887,061)
Total operating expenses	(4,760,108)	(376,351)	(337,961)	(111,036)	(5,585,456)
Income before Zakat	5,334,074	1,508,136	1,852,924	200,690	8,895,824

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13. OPERATING SEGMENTS (CONTINUED)

	Retail segment SAR'000	Corporate segment SAR'000	Treasury segment SAR'000	Investment services and brokerage segment SAR'000	Total SAR'000
30 September 2018 (Unaudited)					
Total assets	189,912,780	60,339,795	101,927,927	3,400,956	355,581,458
Total liabilities	269,212,769	23,758,019	10,075,850	559,764	303,606,402
Financing and investment income from external customers	7,374,890	2,245,959	1,398,082	18,728	11,037,659
Inter-segment operating income/ (expense)	507,266	(633,599)	126,333	-	-
Gross financing and investment income	7,882,156	1,612,360	1,524,415	18,728	11,037,659
Return on customers', banks' and financial institutions' time investments	(91,475)	(151,086)	(119,482)	-	(362,043)
Net financing and investment income	7,790,681	1,461,274	1,404,933	18,728	10,675,616
Fees from banking services, net	610,443	237,032	209,311	372,036	1,428,822
Exchange income, net	119,723	30,656	418,673	-	569,052
Other operating income	93,521	-	47,218	(405)	140,334
Total operating income	8,614,368	1,728,962	2,080,135	390,359	12,813,824
Depreciation and amortization	(309,201)	(5,295)	(10,185)	(4,000)	(328,681)
Impairment charge for financing and other financial assets, net	(921,295)	(265,059)	(14,558)	-	(1,200,912)
Other operating expenses	(3,045,714)	(243,245)	(363,906)	(106,899)	(3,759,764)
Total operating expenses	(4,276,210)	(513,599)	(388,649)	(110,899)	(5,289,357)
Income before Zakat	4,338,158	1,215,363	1,691,486	279,460	7,524,467

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14. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Determination of fair value and fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted prices in active markets for the same instrument (i.e. without modification or 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

Assets and liabilities at fair values are as follows:

	(SAR'000)				
30 September 2019 (Unaudited)	Carrying value	Level 1	Level 2	Level 3	Total
<u>Financial assets</u>					
Financial assets measured at fair value					
FVSI investments	1,370,963	-	1,370,963	-	1,370,963
FVOCI investments	1,150,368	1,126,025	-	24,343	1,150,368
Sukuk	800,000	-	-	800,000	800,000
Financial assets not measured at fair value					
Due from banks and other financial institutions	33,160,144	-	-	32,788,061	32,788,061
Investments held at amortized cost					
- Murabaha with Saudi Government and SAMA	24,968,100	-	-	24,955,621	24,955,621
- Sukuk	17,498,831	-	-	17,089,494	17,089,494
Gross Financing	251,846,964	-	-	272,102,441	272,102,441
Total	330,795,370	1,126,025	1,370,963	347,759,960	350,256,948
<u>Financial liabilities</u>					
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	3,172,813	-	-	3,172,796	3,172,796
Customers' deposits	298,811,018	-	-	298,811,018	298,811,018
Total	301,983,831	-	-	301,983,814	301,983,814

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14. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

31 December 2018 (Audited)	(SAR'000)				
	Carrying value	Level 1	Level 2	Level 3	Total
Financial assets					
Financial assets measured at fair value					
FVSI investments	1,141,584	-	1,141,584	-	1,141,584
FVOCI investments	1,103,463	1,079,101	-	24,362	1,103,463
Sukuk	800,000	-	-	800,000	800,000
Financial assets not measured at fair value					
Due from banks and other financial institutions	32,387,760	-	-	32,280,776	32,280,776
Investments held at amortized cost					
- Murabaha with Saudi Government and SAMA	22,477,145	-	-	22,478,958	22,478,958
- Sukuk	17,395,957	-	-	17,274,997	17,274,997
Gross Financing	239,590,677	-	-	248,936,535	248,936,535
Total	314,896,586	1,079,101	1,141,584	321,795,628	324,016,313
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 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 SIBOR. 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 interim condensed consolidated statement of income without reversal of deferred day one profit and loss.

Sensitivity analysis

The effect on the Bank's equity investments held as FOVCI due to reasonably possible changes in prices, with all other variables held constant, is as follows:

Local Market Indices	30 September 2019		31 December 2018	
	Change in Equity price %	Effect in SAR 000	Change in Equity price %	Effect in SAR 000
Local Share Equity	+/- 10	+/- 112,603	+/- 10	+/- 107,910

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15. SHARE CAPITAL AND EARNINGS PER SHARE

The authorized, issued and fully paid share capital of the Bank consists of 2,500 million shares of SAR 10 each as of 30 September 2019 (31 December 2018 and 30 September 2018: ١,٦٢٠ 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 periods ended 30 September, 2019 and 2018 is 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.

16. 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 banks to hold the minimum level of regulatory capital, and also to maintain a ratio of total regulatory capital to 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 interim condensed consolidated statement of financial position, commitments and contingencies to reflect their relative risks as shown in the following table:

	30 September 2019 (Unaudited) SAR'000	31 December 2018 (Audited) SAR'000	30 September 2018 (Unaudited) SAR'000
Credit risk weighted assets	230,543,998	222,309,112	220,577,850
Operational risk weighted assets	28,094,351	28,094,351	26,832,383
Market risk weighted assets	7,827,894	4,102,847	5,219,629
Total Pillar I - risk weighted assets	266,466,243	254,506,310	252,629,862
Tier I capital	49,180,839	48,554,018	51,975,058
Tier II capital	2,881,800	2,778,864	2,757,223
Total tier I & II capital	52,062,639	51,332,882	54,732,281
Capital Adequacy Ratio %			
Tier I ratio	18.46%	19.08%	20.57%
Tier I & II ratio	19.54%	20.17%	21.67%

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17. DIVIDENDS PAID

On 1 August 2019, the Bank has paid an interim dividend amounting to SAR 3,750 million (SAR 1.5 per share) for the first half of 2019. These interim dividends were approved by Board of Directors on 18 July 2019.

18. RECLASSIFICATION OF COMPARATIVE FIGURES

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 is being made to reflect financing related fee amortization as a yield adjustment to gross financing income. Accordingly, the previously reported amounts in the interim condensed consolidated financial statements for the nine-month period ended 30 September 2018 have been reclassified to conform to the current period presentation and therefore, this change increases the previously reported gross financing and investment income and reduces the fee from banking services. In addition, a financial institution financing amounting to SR1,566 million and 1,580 million has been reclassified to due from banks as at 30 September 2018 and 31 December 2018 respectively.

19. APPROVAL OF THE BOARD OF DIRECTORS

The interim condensed consolidated financial statements were approved by the Board of Directors on 7 Rabi' al Awwal 1441H (corresponding to 4 November 2019).