



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

**INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS (UNAUDITED)**
**FOR THE NINE-MONTH PERIOD ENDED 30
SEPTEMBER 2020**



KPMG Al Fozan & Partners
Certified Public Accountants



Independent auditors' report on review of 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 2020, and the related 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") that is 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 18 to the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note 18 to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

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11 Rabi al-Awwal 1442H
(28 October 2020)



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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

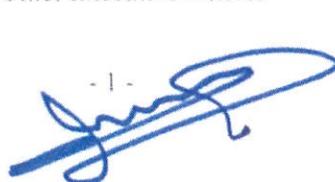
		(SAR '000)		30 September 2019
	30 September 2020	31 December 2019	(Restated note 20)	
	Notes	(Unaudited)	(Audited)	(Unaudited)
ASSETS				
Cash and balances with Saudi Arabian Monetary Authority ("SAMA") and other central banks	3	37,451,161	39,294,099	28,610,612
Due from banks and other financial institutions	4	27,517,042	32,058,182	33,160,144
Investments, net	5	57,111,398	46,842,630	45,945,916
Financing, net	7	289,728,720	249,682,805	244,585,965
Investment properties, net		1,572,851	1,383,849	1,388,145
Property and equipment, net		10,152,865	10,407,247	10,210,531
Other assets, net		6,766,355	4,417,764	3,969,191
TOTAL ASSETS		430,300,392	384,086,576	367,870,504
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Due to banks and other financial institutions	8	11,294,280	2,219,604	3,172,813
Customers' deposits	9	345,322,278	312,405,823	298,811,018
Other liabilities		18,764,832	18,269,492	17,119,513
Total liabilities		375,381,390	332,894,919	319,103,344
Shareholders' equity				
Share capital	16	25,000,000	25,000,000	25,000,000
Statutory reserve		21,789,632	21,789,632	19,250,000
Other reserves	11	(212,797)	(216,041)	(322,726)
Retained earnings		8,342,167	868,066	4,839,886
Proposed gross dividends	19	-	3,750,000	-
Total shareholders' equity		54,919,002	51,191,657	48,767,160
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		430,300,392	384,086,576	367,870,504

The accompanying notes from 1 to 22 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 INCOME (UNAUDITED)

Notes	For the three-month period ended 30 September		For the nine-month period ended 30 September	
	2020 SAR'000 (Unaudited)	2019 SAR'000 (Restated note 20) (Unaudited)	2020 SAR'000 (Unaudited)	2019 SAR'000 (Restated note 20) (Unaudited)
INCOME				
Gross financing and investment income	4,282,345	4,281,741	12,617,465	12,550,974
Return on customers', banks' and financial institutions' time investments	(85,893)	(118,127)	(342,837)	(382,708)
Net financing and investment income	4,196,452	4,163,614	12,274,628	12,168,266
Fee from banking services, net	648,952	536,384	1,795,826	1,530,984
Exchange income, net	197,029	208,391	574,345	579,766
Other operating income, net	109,698	72,843	282,656	202,264
Total operating income	5,152,131	4,981,232	14,927,455	14,481,280
EXPENSES				
Salaries and employees' related benefits	781,813	696,845	2,222,429	2,086,004
Depreciation and amortization	271,307	317,074	829,461	756,603
Other general and administrative expenses	670,680	581,850	1,926,538	1,801,057
Total operating expenses before Impairment charge	1,723,800	1,595,769	4,978,428	4,643,664
Impairment charge for financing and other financial assets, net	7 464,935	332,272	1,615,699	1,107,319
Total operating expenses	2,188,735	1,928,041	6,594,127	5,750,983
Income before Zakat	2,963,396	3,053,191	8,333,328	8,730,297
Zakat	12 (305,548)	(314,369)	(859,227)	(889,582)
Net income for the period	2,657,848	2,738,822	7,474,101	7,840,715
Basic and diluted earnings per share (SAR)	17 1.06	1.10	2.99	3.14

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Authorized Board Member

Chief Executive Officer

Chief Financial Officer

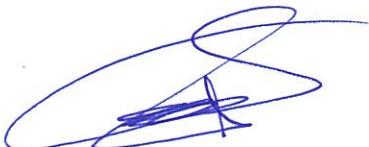
AL RAJHI BANKING AND INVESTMENT CORPORATION
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED)

	For the three-month period ended 30 September		For the nine-month period ended 30 September	
	2020 SAR'000 (Unaudited)	2019 SAR'000 (Restated note 20) (Unaudited)	2020 SAR'000 (Unaudited)	2019 SAR'000 (Restated note 20) (Unaudited)
Net income for the period	2,657,848	2,738,822	7,474,101	7,840,715
<i>Other comprehensive income:</i>				
<i>Items that will not be reclassified to the interim condensed consolidated statement of income in subsequent periods</i>				
- Actuarial loss on employees' end of service benefits ("EOSB")	-	-	(91,448)	(58,197)
- Net change in fair value of investments held at fair value through other comprehensive income ("FVOCI Investments")	313,072	(28,673)	113,232	95,840
<i>Items that may be reclassified to the interim condensed consolidated statement of income in subsequent periods</i>				
- Exchange difference on translation of foreign operations	18,057	(9,516)	(18,540)	(10,814)
Total comprehensive income for the period	2,988,977	2,700,633	7,477,345	7,867,544

The accompanying notes from 1 to 22 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)

	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
For the nine-month period ended 30 September 2020							
Balance at 1 January 2020		25,000,000	21,789,632	(216,041)	868,066	3,750,000	51,191,657
Net income for the period				-	7,474,101	-	7,474,101
Net change in fair value of FVOCI investments		-	-	113,232	-	-	113,232
Exchange difference on translation of foreign operations		-	-	(18,540)	-	-	(18,540)
Net other comprehensive loss recognized directly in equity		-	-	94,692	-	-	94,692
Actuarial loss on employees' end of service benefits ("EOSB")		-	-	(91,448)	-	-	(91,448)
Total comprehensive income for the period		-	-	3,244	7,474,101	-	7,477,345
Transferred of proposed gross dividends to other liabilities	19	-	-	-	-	(3,750,000)	(3,750,000)
Balance at 30 September 2020		25,000,000	21,789,632	(212,797)	8,342,167	-	54,919,002
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
Impact of depreciation of property and equipment	20	-	-	-	(248,152)	-	(248,152)
Restated balance at 1 January 2019		16,250,000	16,250,000	(349,555)	12,499,171	3,656,250	48,305,866
Restated net income for the period		-	-	-	7,840,715	-	7,840,715
Net change in fair value of FVOCI in investments		-	-	95,840	-	-	95,840
Exchange difference on translation of foreign operations		-	-	(10,814)	-	-	(10,814)
Net other comprehensive income recognized directly in equity		-	-	85,026	-	-	85,026
Actuarial loss on employees' end of service benefits ("EOSB")		-	-	(58,197)	-	-	(58,197)
Total comprehensive income for the period		-	-	26,829	7,840,715	-	7,867,544
Dividend for the second half 2018		-	-	-	-	(3,656,250)	(3,656,250)
Bonus shares issued		8,750,000	-	-	(8,750,000)	-	-
Transfer to statutory reserve		-	3,000,000	-	(3,000,000)	-	-
Dividends for the first half 2019		-	-	-	(3,750,000)	-	(3,750,000)
Balance at 30 September 2019 (Restated)		25,000,000	19,250,000	(322,726)	4,839,886	-	48,767,160

The accompanying notes from 1 to 22 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 2020 AND 2019

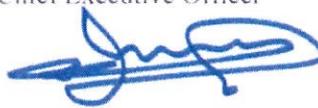
	(SAR'000)	
Notes	2020 (Unaudited)	2019 (Restated note 20) (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income before zakat for the period	8,333,328	8,730,297
Adjustments to reconcile net income to net cash generated from operating activities:		
Gain on investments held at fair value through statement of income (FVSI)	(37,907)	(11,096)
Depreciation and amortization	829,461	756,603
Impairment charge for financing and other financial assets, net	7 1,615,699	1,107,319
Share in earning from an associate	(22,387)	(13,238)
Gain on sale of property and equipment	(9,148)	-
Net decrease / (increase) in operating assets		
Statutory deposit	(1,346,498)	(519,472)
Due from banks and other financial institutions	7,587,800	(5,176,748)
Financing	(41,661,614)	(13,935,079)
Investments held at FVSI	(2,123,775)	21,484
Other assets, net	(2,367,092)	(367,829)
Net increase / (decrease) in operating liabilities		
Due to banks and other financial institutions	9,074,676	(4,116,811)
Customers' deposits	32,916,455	4,901,893
Other liabilities	495,340	2,580,900
Net cash generated from operating activities	13,284,338	(6,041,777)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(575,079)	(1,026,768)
Purchase of FVOCI investments	(1,407,449)	(190,832)
Proceeds from matured investments held at amortized cost	23,718,667	69,450,503
Purchase of investment property	-	(102,511)
Purchase of investments held at amortized cost	(30,212,387)	(72,027,683)
Net cash used in investing activities	(8,476,248)	(3,897,291)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(3,750,000)	(7,406,250)
Zakat paid	(1,167,831)	(2,024,443)
Payment against lease obligations	(33,035)	(201,464)
Net cash used in financing activities	(4,950,866)	(9,632,157)

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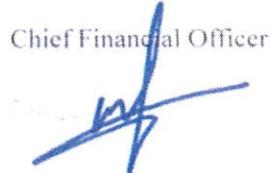
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2020 AND 2019
(CONTINUED)

	Notes	(SAR'000)	
		2020 (Unaudited)	2019 (Restated note 20) (Unaudited)
NET (DECREASE) IN CASH AND CASH EQUIVALENTS		(142,776)	(19,571,225)
Cash and cash equivalents at beginning of the period		21,111,399	29,786,503
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	13	20,968,623	10,215,278
Gross financing and investment income received during the period		12,556,846	11,944,134
Return on customers', banks' and financial institutions' time investments paid during the period		(126,993)	(225,238)
<u>Non-cash transactions:</u>			
Net change in fair value of FVOCI investments		113,232	95,840

The accompanying notes from 1 to 22 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)

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS (UNAUDITED)**
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2020

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 has 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 2020 and 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 and other standards and pronouncements issued by the Saudi Organization for Certified Public 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 2019.

The consolidated financial statements of the Group as at and for the year ended 31 December 2019, were prepared in accordance with International Financial Reporting Standards as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the SOCPA.

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 2019 except for the effects of government grants and derivatives financial instruments accounting policies mentioned in note 2.IV below.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2020

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.

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

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

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, if any, are included in the interim condensed consolidated statements of comprehensive income from the effective date of the acquisition or up to the effective 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.

III. SUBSIDIARIES

As at 30 September 2020 and 2019, the following subsidiaries were included in the interim condensed consolidated financial statements:

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 Takaful Agency Company – KSA	99 %	99%	A limited liability company registered in 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 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 BANKING AND INVESTMENT CORPORATION
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

III. SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Shareholding %		
	2020	2019	
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 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.
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.
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 treasury related transactions on behalf of the Bank.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS (UNAUDITED) (CONTINUED)**
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IV. AMENDMENTS TO ACCOUNTING POLICIES

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 derivative 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IV. AMENDMENTS TO 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. 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.

3. CASH AND BALANCES WITH SAMA AND OTHER CENTRAL BANKS

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

	(SAR’000)		
	30 September 2020 (Unaudited)	31 December 2019 (Audited)	30 September 2019 (Unaudited)
Cash in hand	7,168,289	7,404,276	7,639,522
Statutory deposit	22,010,001	20,663,503	19,963,666
Current account with SAMA	359,871	371,320	256,424
Mutajara with SAMA	7,913,000	10,855,000	751,000
Total	<u>37,451,161</u>	<u>39,294,099</u>	<u>28,610,612</u>

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 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:

	(SAR’000)		
	30 September 2020 (Unaudited)	31 December 2019 (Audited)	30 September 2019 (Unaudited)
Current accounts	763,259	798,168	861,609
Mutajara	26,753,783	31,260,014	32,298,535
Total	<u>27,517,042</u>	<u>32,058,182</u>	<u>33,160,144</u>

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2020

5. INVESTMENTS, NET

Investments comprise the following:

	(SAR'000)		
	30 September 2020 (Unaudited)	31 December 2019 (Audited)	30 September 2019 (Unaudited)
Investment in an associate	218,622	196,235	185,991
Investments held at amortized cost			
Murabaha with Saudi Government and SAMA	25,364,916	24,991,978	24,968,100
Sukuk	24,196,768	17,973,379	17,498,831
Less: Impairment (Stage 1)	(32,192)	(22,270)	(28,337)
Total investments held at amortized cost	49,529,492	42,943,087	42,438,594
Investments held at fair value through statement of income (FVSI)			
Mutual funds	2,402,294	1,230,711	1,370,963
Sukuk	1,767,712	800,000	800,000
Total FVSI investments	4,170,006	2,030,711	2,170,963
FVOCI investments			
Equity investments	3,193,278	1,672,597	1,150,368
Total investments	57,111,398	46,842,630	45,945,916

6. 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.

	Derivative financial instruments		
	30-Sep-20		
	(SAR'000)		
	Positive fair value	Negative fair value	Notional amount Total
Held for trading:			
Profit rate swaps	37,001	33,357	4,276,978
Foreign exchange forward contracts	1,922	234	1,047,307

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7. FINANCING, NET

7.1 Net financing held at amortized cost:

30 September 2020 (unaudited) SAR' 000	Retail	Corporate	Total
Performing financing	228,721,976	65,753,479	294,475,455
Non-performing financing	606,142	1,853,667	2,459,809
Gross financing	229,328,118	67,607,146	296,935,264
Provision for financing impairment	(4,145,854)	(3,060,690)	(7,206,544)
Financing, net	225,182,264	64,546,456	289,728,720

31 December 2019 (audited) SAR' 000	Retail	Corporate	Total
Performing financing	189,925,781	64,459,827	254,385,608
Non-performing financing	629,719	1,687,074	2,316,793
Gross financing	190,555,500	66,146,901	256,702,401
Provision for financing impairment	(3,832,473)	(3,187,123)	(7,019,596)
Financing, net	186,723,027	62,959,778	249,682,805

30 September 2019 (unaudited) SAR' 000	Retail	Corporate	Total
Performing financing	179,160,488	70,315,056	249,475,544
Non-performing financing	653,270	1,718,150	2,371,420
Gross financing	179,813,758	72,033,206	251,846,964
Provision for financing impairment	(3,869,474)	(3,391,525)	(7,260,999)
Financing, net	175,944,284	68,641,681	244,585,965

7.2 The movement in the allowance for impairment of financing is as follows:

For the nine-month period ended SAR' 000	30 September 2020 (Unaudited)	30 September 2019 (Unaudited)
Balance at the beginning of the period	7,019,596	7,832,471
Provided for the period	2,522,934	1,520,072
Bad debt written off against provision for the period	(2,335,986)	(2,091,544)
Balance at the end of the period	7,206,544	7,260,999

7.FINANCING, NET (CONTINUED)

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7.3 The allowance for impairment of financing charged to the interim consolidated statement of income comprise of the following:

For the nine-month period ended SAR' 000	30 September 2020 (Unaudited)	30 September 2019 (Unaudited)
Provided for the period	2,522,934	1,520,072
Recovery of written off financing for the period	(907,235)	(672,753)
Allowance for financing impairment, net	1,615,699	847,319
Allowance for other financial assets impairment, net	-	260,000
Charge for the period	1,615,699	1,107,319

7.4 The movement in ECL allowances for impairment of financing by stages is as follows:

30 September 2020 (unaudited)	12 months	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
SAR' 000	ECL	ECL	impaired	impaired
Balance at the beginning of the period	2,501,529	2,735,544	1,782,523	7,019,596
Provided for the period	587,965	(50,441)	1,985,410	2,522,934
Bad debt written off against provision for the period	(345,799)	(309,824)	(1,680,363)	(2,335,986)
Balance at the end of the period	2,743,695	2,375,279	2,087,570	7,206,544
30 September 2019 (unaudited)	12 months	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
SAR' 000	ECL	ECL	impaired	impaired
Balance at the beginning of the period	2,949,209	3,020,819	1,862,443	7,832,471
Provided for the period	145,645	(139,441)	1,513,868	1,520,072
Bad debt written off against provision for the period	(259,126)	(266,438)	(1,565,980)	(2,091,544)
Balance at the end of the period	2,835,728	2,614,940	1,810,331	7,260,999

Allowances for impairment of financing closing balance as of 30 September 2020 does not include impairment allowance related to off balance sheet items amounting to SAR 457 million (30 September 2019: SAR 211 million) which is accounted for in other liabilities.

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8. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Due to banks and other financial institutions comprise the following:

	(SAR'000)		
	30 September 2020 (Unaudited)	31 December 2019 (Audited)	30 September 2019 (Unaudited)
Current accounts	167,485	545,572	475,613
Banks' time investments	11,126,795	1,674,032	2,697,200
Total	11,294,280	2,219,604	3,172,813

In order to offset the modification losses that the Bank is expected to incur in deferring the payments as disclosed in note 21, the Bank has received profit free deposits of (SAR 2.97 billion for 3 years, SAR 674 million for 1.5 years and SAR 5.2 billion for 1 year). Please refer to note 21.

9. CUSTOMERS' DEPOSITS

Customers' deposits by type comprise the following:

	(SAR'000)		
	30 September 2020 (Unaudited)	31 December 2019 (Audited)	30 September 2019 (Unaudited)
Demand deposits	317,149,742	284,299,851	283,569,115
Customers' time investments	20,804,460	22,126,226	9,559,314
Other customer accounts	7,368,076	5,979,746	5,682,589
Total	345,322,278	312,405,823	298,811,018

10. CONTINGENT LIABILITIES

Contingent liabilities comprise the following:

	(SAR'000)		
	30 September 2020 (Unaudited)	31 December 2019 (Audited)	30 September 2019 (Unaudited)
Letters of credit	1,730,386	890,942	1,305,683
Acceptances	427,429	324,962	281,221
Letters of guarantee	5,723,685	4,973,200	5,119,494
Irrevocable commitments to extend credit	8,067,912	11,636,094	7,641,620
Total	15,949,412	17,825,198	14,348,018

The Bank is subject to legal proceedings in the ordinary course of business. There have been no significant changes in the status of legal proceedings as disclosed in the 31 December 2019 year-end consolidated financial statements.

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11. OTHER RESERVES

Other reserves include FVOCI investments reserve, foreign currency translation reserve and employees' end of service benefits reserve.

12. 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.

13. CASH AND CASH EQUIVALENTS

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

	(SAR'000)		
	30 September 2020 (Unaudited)	31 December 2019 (Audited)	30 September 2019 (Unaudited)
Cash in hand	7,168,289	7,404,276	7,639,522
Due from banks and other financial institutions maturing within 90 days from the date of purchase	5,527,462	2,480,803	1,568,332
Balances with SAMA and other central banks (current accounts)	359,872	371,320	256,424
Mutajara with SAMA	7,913,000	10,855,000	751,000
Cash and cash equivalents	20,968,623	21,111,399	10,215,278

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14. 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), fees from banking services and remittance business.
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.

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.

The Group's total assets and liabilities as at 30 September 2020 and 2019 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:

	Retail segment	Corporate segment	Treasury segment	Investment services and brokerage segment	Total
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
30 September 2020 (unaudited)					
Total assets	246,751,554	63,954,117	116,203,535	3,391,186	430,300,392
Total liabilities	284,147,915	75,542,937	15,527,355	163,183	375,381,390
Financing and investment income from external customers	9,004,271	2,007,162	1,571,436	34,596	12,617,465
Inter-segment operating income / (expense)	(378,976)	(406,711)	785,687	-	-
Gross financing and investment income	8,625,295	1,600,451	2,357,123	34,596	12,617,465
Return on customers', banks' and financial institutions' time investments	(149,158)	(79,521)	(114,158)	-	(342,837)
Net financing and investment income	8,476,137	1,520,930	2,242,965	34,596	12,274,628
Fee from banking services, net	1,144,771	216,872	35,604	398,579	1,795,826
Exchange income, net	122,204	92,564	359,577	-	574,345
Other operating income, net	63,193	-	126,744	92,719	282,656
Total operating income	9,806,305	1,830,366	2,764,890	525,894	14,927,455
Depreciation	(771,683)	(35,726)	(16,873)	(5,179)	(829,461)
Impairment charge for financing and other financial assets, net	(896,492)	(689,872)	(29,335)	-	(1,615,699)
Other operating expenses	(3,603,789)	(299,248)	(138,958)	(106,972)	(4,148,967)
Total operating expenses	(5,271,964)	(1,024,846)	(185,166)	(112,151)	(6,594,127)
Income before Zakat	4,534,341	805,520	2,579,724	413,743	8,333,328

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14. OPERATING SEGMENTS (CONTINUED)

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	197,605,634	64,264,782	102,816,161	3,183,927	367,870,504
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
Fee 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	(701,854)	(10,684)	(39,400)	(4,665)	(756,603)
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	(4,925,635)	(376,351)	(337,961)	(111,036)	(5,750,983)
Income before Zakat	5,168,547	1,508,136	1,852,924	200,690	8,730,297

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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 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.

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 September 2020 (unaudited)	(SAR '000)				Total
	Carrying value	Level 1	Level 2	Level 3	
Financial assets					
Financial assets measured at fair value					
Investments held at FVSI	2,402,294	-	1,648,179	754,115	2,402,294
FVOCI investments	3,193,278	3,168,907	-	24,371	3,193,278
Sukuk	1,767,712	-	-	1,767,712	1,767,712
Financial assets not measured at fair value					
Due from banks and other financial institutions	27,517,042	-	-	28,128,505	28,128,505
Investments held at amortized cost					
- Murabaha with Saudi Government and SAMA	25,364,916	-	-	25,681,498	25,681,498
- Sukuk	24,196,768	-	-	24,979,874	24,979,874
Gross Financing	296,935,264	-	-	301,470,034	301,470,034
Total	381,377,274	3,168,907	1,648,179	382,806,109	387,623,195
Financial liabilities					
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	11,294,280	-	-	11,397,995	11,397,995
Customers' deposits	345,322,278	-	-	345,326,992	345,326,992
Total	356,616,558	-	-	356,724,987	356,724,987

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

31 December 2019 (Audited)	(SAR '000)				Total
	Carrying value	Level 1	Level 2	Level 3	
<u>Financial assets</u>					
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	1,648,242	-	24,355	1,672,597
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	1,648,242	1,230,711	352,693,454	355,572,407
<u>Financial liabilities</u>					
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 and 3 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/ 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.

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16. 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 30 September 2020 (31 December 2019: 2,500 million shares of SAR 10 each and 30 September 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.

17. EARNINGS PER SHARE

Basic and diluted earnings per share for the period ended 30 September 2020 and 2019 is 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.

18. 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 risks:

The following table summarizes the Bank's Pillar-I Risk Weighted Assets, Tier I and Tier II Capital and Capital Adequacy Ratios.

	30 September 2020 (Unaudited) SAR'000	31 December 2019 (Audited) SAR'000	30 September 2019 (Restated note 20) (Unaudited) SAR'000
Credit risk weighted assets	262,473,705	234,299,968	230,543,998
Operational risk weighted assets	30,784,119	30,784,119	28,094,351
Market risk weighted assets	8,405,941	7,236,637	7,827,894
Total Pillar I - risk weighted assets	301,663,765	272,320,724	266,466,243
Tier I capital	54,919,002	51,191,657	49,180,839
Tier II capital	3,280,921	2,928,750	2,881,800
Total tier I & II capital	58,199,923	54,120,407	52,062,639
Capital Adequacy Ratio %			
Tier I ratio	18.21%	18.80%	18.46%
Tier I & II ratio	19.29%	19.87%	19.54%

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19. DIVIDENDS

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 from the Annual General Assembly in its meeting held on 29 March 2020. These dividends were subsequently paid on 6 April 2020.

20. COMPARATIVE FIGURES

a. Capitalization of property and equipment

The Bank performed an analysis of capital work in progress reported under property and equipment in the consolidated statement of financial position during 2019. As a result of that analysis, the management identified certain assets amounting to SAR 1,902 million as at 31 December 2019 that were not capitalized on a timely basis, which has resulted in an understatement of depreciation expenses in the previous years.

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 2019:

Financial statement impacted	Account	As previously stated as at 1 January 2019 SAR'000	Effect of Restatement SAR'000	As restated as at 1 January 2019 SAR'000
Interim condensed consolidated statement of financial position	Property and equipment	8,897,587	(248,152)	8,649,435
Interim condensed consolidated statement of changes in shareholders' equity	Retained earnings	12,747,323	(248,152)	12,499,171

As at and for the period ended 30 September 2019:

Financial statement impacted	Account	As previously stated as at and for the nine-month period ended 30 September 2019 SAR'000	Effect of Restatement SAR'000	As restated as at and for the nine-month period ended 30 September 2019 SAR'000
Interim condensed consolidated statement of financial position	Property and equipment	10,624,210	(413,679)	10,210,531
Interim condensed consolidated statement of changes in shareholders' equity	Retained earnings	5,253,565	(413,679)	4,839,886
Interim condensed consolidated statement of income	Depreciation	591,076	165,527	756,603
Interim condensed consolidated statement of income	Earnings per share	3.20	(0.06)	3.14

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20. COMPARATIVE FIGURES (CONTINUED)

Capitalization of property and equipment (CONTINUED)

As at and for the three -month period ended 30 September 2019:

Financial statement impacted	Account	As previously stated for the three-month period ended 30 September 2019 SAR'000	Effect of Restatement SAR'000	As restated for the three-month period ended 30 September 2019 SAR'000
Interim condensed consolidated statement of income	Depreciation	226,569	90,505	317,074
Interim condensed consolidated statement of income	Earnings per share	1.13	(0.03)	1.10

21. IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES (“ECL”) AND SAMA PROGRAMS

The Coronavirus (“COVID-19”) pandemic continues to disrupt global markets as many geographies are beginning to experience 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 effective measures taken by the Government, following which the Government has now ended the lockdowns and has begun taking phased measures to normalize international travel and resume Umrah pilgrimages.

The Bank continues to be 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. This has entailed reviewing specific economic sectors, regions, counterparties and collateral protection and taking appropriate customer credit rating actions and initiating restructuring of loans, where required.

The prevailing economic conditions do require the Bank to continue to revise certain inputs and assumptions used for the determination of expected credit losses (“ECL”). These primarily revolve around either adjusting macroeconomic factors used by the Bank in the estimation of ECL or revisions to the scenario probabilities currently being used by the Bank. As the situation continues to be fluid, the management considers certain effects cannot be fully incorporated into the ECL model calculations at this point in time. Accordingly, management’s ECL assessment includes sector-based analysis / staging analysis depending on the impacted portfolios and macroeconomic analysis. The Bank has therefore recognised overlays of SR 295 million as at 30 September 2020. The Bank will continue to reassess as more reliable data becomes available and accordingly determine if any adjustment in the ECL is required in subsequent reporting periods.

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**21. IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES (“ECL”) 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 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 six 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 without increasing the facility tenor. 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. The Bank continues to believe that in the absence of other factors, participation in the deferment programme on its own, is not considered a significant increase in credit risk.

Further to the above, on 1 September 2020, SAMA extended the deferred payments program by allowing additional three months payment deferrals for eligible MSMEs until 14 December 2020. The Bank has effected the payment reliefs by deferring the instalments falling due within the period from 15 September 2020 to 14 December 2020 for a period of additional three months without increasing the facility tenor. 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 the arrangement. This resulted in the Bank recognizing an additional modification loss of SR 26.7 million during the period ended 30 September 2020.

Since the inception of the deferred payments program by SAMA and by the end of Q3 2020, the Bank has recognised SR 115.8 million of related modification losses of which SR 52 million have been unwound.

In order to compensate the related cost that the Bank is expected to incur under the SAMA and other public authorities program, during the nine months period ended 30 September 2020 the Bank received profit free deposits from SAMA amounting to SR 3.648 billion with varying maturities, which qualify as government grants. Management has determined based on the communication from SAMA, that the government grant primarily relates to compensation for the modification loss incurred on the deferral of payments. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. By the end of 30 September 2020, total income of SR 101.2 million has been recognised in the statement of income. The management has exercised certain judgements in the recognition and measurement of this grant income. During the nine months period ended 30 September 2020, SR 13.5 million has been recognized in the statement of income relating to unwinding.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS (UNAUDITED) (CONTINUED)
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2020**

21. IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES (“ECL”) AND SAMA PROGRAMS (CONTINUED)

As at 30 September 2020, the Bank is yet to participate in SAMA’s funding for lending and facility guarantee programs.

Furthermore, during the nine months period ended 30 September 2020, the Bank has recognised reimbursement from SAMA for the forgone POS and e-commerce service fees amounting to SR 89.8 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 Q2 2020, the Bank received SR 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 subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in a total income of SR 57 million, of which SR 14.2 million has been recognised in the statement of income as at 30 September 2020 and with the remaining amount deferred.

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 recognising a day 1 modification loss of SR 243.7 million in March 2020, which was presented as part of net financing income. SR 37.6 million has been recognised in the statement of income on unwinding of this modification loss during the nine months period ended Q3 2020.

22. APPROVAL OF THE BOARD OF DIRECTORS

The interim condensed consolidated financial statements were approved by the Board of Directors on 8 Rabi’ul-Awwal 1442H (corresponding to 25 October 2020).