IMPORTANT NOTICE

NOT FOR DISTRIBUTION DIRECTLY OR INDIRECTLY IN OR INTO THE UNITED STATES OR TO ANY U.S. PERSON.

IMPORTANT: **You must read the following notice before continuing**. The following notice applies to the attached offering circular (the "**Offering Circular**"), whether received by e-mail, accessed from an internet page or otherwise received as a result of electronic communication, and you are therefore advised to read this notice carefully before reading, accessing or making any other use of this Offering Circular. In reading, accessing or making any other use of this Offering Circular, you agree to be bound by the following terms and conditions and each of the restrictions set out in this Offering Circular, including any modifications made to them from time to time, each time you receive any information from Riyad Sukuk Limited (the "**Trustee**") and Riyad Bank ("**Riyad Bank**") as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE OR SOLICITATION IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES DESCRIBED IN THIS OFFERING CIRCULAR HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("REGULATION S")) TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THIS OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS OFFERING CIRCULAR IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

Any securities described in this Offering Circular which do not constitute "alternative finance investment bonds" ("**AFIBs**") within the meaning of Article 77A of the Financial Services and Markets Act 2000 (Regulated Activities) (Amendment) Order 2010 will represent interests in a collective investment scheme (as defined in the Financial Services and Markets Act 2000, as amended (the "**FSMA**")) which has not been authorised, recognised or otherwise approved by the United Kingdom Financial Conduct Authority. Accordingly, this Offering Circular is not being distributed to, and must not be passed on to, the general public in the United Kingdom (the "**UK**").

The distribution in the UK of this Offering Circular, any Pricing Supplement (as defined herein) and any other marketing materials relating to the securities is being addressed to, or directed at: (A) if the distribution of the securities (whether or not such securities are AFIBs) is being effected by a person who is not an authorised person under the FSMA, only the following persons: (i) persons who are Investment Professionals as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Financial Promotion Order**"); (ii) persons falling within any of the categories of persons described in Article 49 (High net worth companies, unincorporated associations, etc.) of the Financial Promotion Order; and (iii) any other person to whom it may otherwise lawfully be made in accordance with the Financial Promotion Order; and (B) if the securities are not AFIBs and the distribution is effected by a person who is an authorised person under the FSMA, only the following persons: (i) persons falling within one of the categories of Investment Professional as defined in Article 14(5) of the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 (the "**Promotion of CISs Order**"); (ii) persons falling within any of the categories of a person described in Article 22 (High net worth companies, unincorporated associations, etc.) of the Promotion of CISs Order; and (iii) any other person to whom it may otherwise lawfully be promoted (all such persons together being referred to as "**Relevant Persons**").

CONFIRMATION OF YOUR REPRESENTATION: In order to be eligible to view this Offering Circular or make an investment decision with respect to the Certificates described therein, (A) each prospective investor in respect of the Certificates being offered outside of the United States in an offshore transaction pursuant to Regulation S must be outside of the United States and (B) each prospective investor in respect of the securities being offered in the UK must be a Relevant Person. By accepting this e-mail and accessing, reading or making any other use of this Offering Circular, you shall be deemed to have represented to each of J.P. Morgan Securities plc, Riyad Capital and Standard Chartered Bank (the "**Arrangers**") and J.P. Morgan Securities plc, Riyad Capital and Standard Chartered Bank (the "**Dealers**") that: (i) you understand and agree to the terms set out herein; (ii) you are a Relevant Person; (iii) you are not a U.S. person (within the meaning of Regulation S), or acting for the account or benefit of a U.S. person, and, to the extent that you purchase the securities described herein, you will be doing so pursuant to Regulation S, and that the electronic mail address that you have given is not located in the United States (including the State and District of Columbia), its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands); (iv) you are a person who is permitted under applicable law and regulation to receive this Offering Circular; (v) you consent to delivery of such Offering Circular and any supplements thereto by electronic transmission; (vi) you will not transmit this Offering Circular (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person; and (vii) you acknowledge that you will make your own assessment regarding any credit, investment, legal, taxation or other economic considerations with respect to your decision to subscribe or purchase any of the securities.

This Offering Circular may not be distributed in the Kingdom of Saudi Arabia (the "**Kingdom**") except to such persons as are permitted under the Rules on the Offer of Securities and Continuing Obligations issued by the board of the Capital Market Authority (the "**CMA**") pursuant to its Resolution number 3-123-2017 dated 9/4/1439H (corresponding to 27 December 2017) as amended by its Resolution number 3-45-2018 dated 7/8/1439H (corresponding to 23 April 2018) and its Resolution number 1-104-2019 dated 01/02/1441H (corresponding to 30 September 2019) (the "**Rules on the Offer of Securities and Continuing Obligations**").

The CMA does not make any representation as to the accuracy or completeness of this Offering Circular, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Offering Circular. Prospective purchasers of the securities offered hereby should conduct their own due diligence on the accuracy of the information relating to the securities. If you do not understand the contents of the Offering Circular you should consult an authorised financial adviser.

The Certificates are being offered by way of an offer restricted to sophisticated investors. To qualify as an offer restricted to sophisticated investors, the Certificates may only be offered and sold in the Kingdom in accordance with Article 9 of the Rules on the Offer of Securities and Continuing Obligations. In accordance with Article 11(a)(2) of the Rules on the Offer of Securities and Continuing Obligations, the CMA has been notified about the offering of the Certificates.

The Saudi Arabian Monetary Authority ("**SAMA**") does not make any representation as to the accuracy or completeness of this Offering Circular and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Offering Circular. In particular, prospective purchasers of the Certificates agree and acknowledge that SAMA assumes no liability whatsoever to any purchaser of the Certificates for any loss arising from, or incurred as a result of, the occurrence of a Non-Viability Event. If you do not understand the contents of this Offering Circular, you should consult an authorised financial adviser. See "*Risk Factors–The circumstances triggering a Write-down are unpredictable*" and "*Risk Factors–The Certificateholders' right to receive payment of the principal amount of the Tier 2 Certificates will, and the Periodic Distribution Amounts in respect of Tier 2 Certificates may, be written-down (in whole or in part) upon the occurrence of a Non-Viability Event*".

The distribution of this Offering Circular and the offering, sale and delivery of the Certificates in any jurisdiction other than the Kingdom may be restricted by law.

You are reminded that this Offering Circular has been delivered to you on the basis that you are a person into whose possession this Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver or disclose the contents of this Offering Circular, electronically or otherwise, to any other person and in particular to any U.S. address. Failure to comply with this directive may result in a violation of the Securities Act or the applicable laws of other jurisdictions.

This Offering Circular does not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that an offering of securities described herein be made by a licensed broker or dealer and the Arrangers and the Dealers or any affiliate of the Arrangers or the Dealers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Arranger or Dealer or such affiliate on behalf of Riyad Bank, the Trustee or holders of the applicable securities in such jurisdiction.

Under no circumstances shall this Offering Circular constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

This Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Arrangers, the Dealers, the Trustee, Riyad Bank nor any person who controls or is a director, officer, employee or agent of any Arranger, Dealer, the Trustee, Riyad Bank nor any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between this Offering Circular distributed to you in electronic format and the hard copy version available to you on request from Riyad Bank, the Trustee, the Arrangers and the Dealers. If you received this Offering Circular by e-mail, you should not reply by e-mail to this announcement. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected. If you receive this Offering Circular by e-mail, your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

MiFID II product governance / target market – The Pricing Supplement in respect of any Certificates may include a legend entitled "MiFID II Product Governance" which will outline the target market assessment in respect of the Certificates and which channels for distribution of the Certificates are appropriate. Any person subsequently offering, selling or recommending the Certificates (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to Directive 2014/65/EU (as amended "**MiFID II**") is responsible for undertaking its own target market assessment in respect of the Certificates (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), any Dealer subscribing for any Certificates is a manufacturer in respect of such Certificates, but otherwise neither the Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

PROHIBITION ON SALES TO EEA AND UK RETAIL INVESTORS – If the Pricing Supplement in respect of any Tier 2 Certificates includes a legend entitled "Prohibition of Sales to EEA and UK Retail Investors", the Tier 2 Certificates are not intended to be offered, sold or otherwise made available to, and should not be offered, sold or otherwise made available to, any retail investor in the European Economic Area ("**EEA**") or in the United Kingdom (the "**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (A) a retail client as defined in point (11) of MiFID II; or (B) a customer within the meaning of Directive (EU) 2016/97, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (C) not a qualified investor as defined in Regulation (EU) 2017/1129. Consequently, no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Tier 2 Certificates or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Tier 2 Certificates or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPS Regulation.

The distribution of this Offering Circular in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Arrangers, the Dealers, the Trustee and Riyad Bank to inform themselves about, and to observe, any such restrictions.

OFFERING CIRCULAR DATED 11 FEBRUARY 2020

بنك الرياض
riyad bank

Riyad Sukuk Limited

(incorporated in the Cayman Islands with limited liability)

U.S.$3,000,000,000

Trust Certificate Issuance Programme

Under the U.S.$3,000,000,000 trust certificate issuance programme described in this Offering Circular (the "**Programme**"), Riyad Sukuk Limited (in its capacities as issuer and as trustee, the "**Trustee**"), subject to compliance with all applicable laws, regulations and directives, may from time to time issue trust certificates (the "**Certificates**") in any currency agreed between the Trustee and the relevant Dealer (as defined below). The Certificates may be senior certificates ("**Senior Certificates**") or subordinated certificates ("**Tier 2 Certificates**").

Certificates may only be issued in registered form. The maximum aggregate face amount of all Certificates from time to time outstanding under the Programme will not exceed U.S.$3,000,000,000 (or its equivalent in other currencies calculated as described in the Dealer Agreement (as defined below), subject to increase as described herein.

Each Series (as defined below) of Certificates issued under the Programme will be constituted by (i) a master declaration of trust (the "**Master Declaration of Trust**") dated 11 February 2020 entered into between the Trustee, Riyad Bank ("**Riyad Bank**", or the "**Bank**") and Citibank, N.A., London Branch as delegate of the Trustee (the "**Delegate**", which expression shall include any co-Delegate or any successor) and (ii) a supplemental declaration of trust (each a "**Supplemental Declaration of Trust**" and, together with the Master Declaration of Trust, each a "**Declaration of Trust**") in relation to the relevant Tranche (as defined in the Conditions). Certificates of each Series confer on the holders of the Certificates from time to time (the "**Certificateholders**") the right to receive certain payments (as more particularly described herein) arising from a *pro rata* ownership interest in the assets of a trust declared by the Trustee in relation to the relevant Series (the "**Trust**") over the Trust Assets (as defined below) which will include, *inter alia*, (a) the relevant Portfolio (as defined herein); and (b) the relevant Transaction Documents (as defined below).

The Certificates may be issued on a continuing basis to one or more of the Dealers (each a "**Dealer**" and together, the "**Dealers**") specified under "*Overview of the Programme*" and any additional Dealer(s) appointed under the Programme from time to time by the Trustee and Riyad Bank, which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the "relevant Dealer" shall, in the case of an issue of Certificates being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Certificates.

The Certificates will be limited recourse obligations of the Trustee. An investment in Certificates issued under the Programme involves certain risks. For a discussion of these risks, see "*Risk Factors*". In particular, investors should review and consider the risk factors relating to a Write-down (as defined herein) and the impact this will have on their investment.

Application has been made to the London Stock Exchange plc (the "**London Stock Exchange**") for the Certificates issued under the Programme during the period of 12 months from the date of this Offering Circular to be admitted to the London Stock Exchange's International Securities Market (the "**ISM**"). This Offering Circular comprises admission particulars for the purposes of admission to trading of the Certificates on the ISM. The ISM is not a regulated market for the purposes of Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments, as amended ("**MiFID II**").

The ISM is a market designated for professional investors. Certificates admitted to trading on the ISM are not admitted to the Official List of the United Kingdom Listing Authority. The London Stock Exchange has not approved or verified the contents of this Offering Circular.

References in this Offering Circular to the Certificates being "**admitted to trading**" (and all related references) shall mean that such Certificates have been admitted to trading on the ISM. The Programme provides that Certificates may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Trustee, the Bank and the relevant Dealer(s). The Trustee may also issue unlisted Certificates and/or Certificates not admitted to trading on any market. The applicable Pricing Supplement (as defined below) will state whether or not the relevant Certificates will be listed and/or admitted to trading.

Notice of the aggregate face amount of Certificates, profit (if any) payable in respect of such Certificates, the issue price of such Certificates and other information which is applicable to each Tranche of such Certificates will be set out in a pricing supplement (the "**Pricing Supplement**"), which with respect to Certificates to be admitted to trading on the ISM, will be delivered to the London Stock Exchange. Copies of the Pricing Supplement in relation to Certificates to be admitted to trading on the ISM will also be published on the website of the London Stock Exchange through a regulatory information service.

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

Riyad Bank has been assigned a deposit rating of "A2" with a "stable" outlook by Moody's Investors Service ("**Moody's**"). Riyad Bank has also been assigned long–term foreign currency ratings of "BBB+" with a "stable" outlook by S&P Global Ratings Europe Limited ("**S&P**"), "BBB+" with a "stable" outlook by Fitch Ratings Ltd ("**Fitch**") and "A+" with a "stable" outlook by Capital Intelligence Ratings Ltd. ("**Capital Intelligence**"). The Programme has been assigned long-term ratings of "A2 senior unsecured", in respect of the Senior Certificates, and "Baa3 contractual point of non-viability subordinated rating", in respect of the Tier 2 Certificates, by Moody's and "BBB+", in respect of the Senior Certificates, by Fitch. Each of Moody's, S&P, Fitch and Capital Intelligence is established in the EU and is registered under the CRA Regulation. As such, each of Moody's, S&P, Fitch and Capital Intelligence is included in the list of credit rating agencies published by the European Securities and Markets Authority ("**ESMA**") on its website in accordance with the CRA Regulation. A Series to be issued under the Programme may be rated or unrated. Where a Series is rated, such rating will be disclosed in the applicable pricing supplement document (the "**applicable Pricing Supplement**") and will not necessarily be the same as the rating applicable to the Programme. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

The transaction structure relating to the Certificates (as described in this Offering Circular) has been approved by the Riyad Bank Shari'ah Committee, the Shariah Supervisory Committee of Standard Chartered Bank and J.P. Morgan Securities plc's *Shari'a* advisers. Prospective Certificateholders should not rely on such approvals in deciding whether to make an investment in the Certificates and should consult their own *Shari'a* advisers as to whether the proposed transaction described in such approvals is in compliance with their individual standards of compliance with *Shari'a* principles.

This Offering Circular may not be distributed in the Kingdom of Saudi Arabia (the "**Kingdom**") except to such persons as are permitted under the Rules on the Offer of Securities and Continuing Obligations issued by the board of the Capital Market Authority (the "**CMA**") pursuant to its Resolution number 3-123-2017 dated 9/4/1439H (corresponding to 27 December 2017) as amended by its Resolution number 3-45-2018 dated 7/8/1439H (corresponding to 23 April 2018) and its Resolution number 1-104-2019 dated 01/02/1441H (corresponding to 30 September 2019) (the "**Rules on the Offer of Securities and Continuing Obligations**").

The Certificates are being offered by way of an offer restricted to sophisticated investors. To qualify as an offer restricted to sophisticated investors, the Certificates may only be offered and sold in the Kingdom in accordance with Article 9 of the Rules on the Offer of Securities and Continuing Obligations. In accordance with Article 11(a)(2) of the Rules on the Offer of Securities and Continuing Obligations, the CMA has been notified about the offering of the Certificates.

The CMA does not make any representation as to the accuracy or completeness of this Offering Circular and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Offering Circular. Prospective purchasers of the securities offered hereby should conduct their own due diligence on the accuracy of the information relating to the securities. If you do not understand the contents of this Offering Circular, you should consult an authorised financial adviser.

The Saudi Arabian Monetary Authority ("**SAMA**") does not make any representation as to the accuracy or completeness of this Offering Circular and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Offering Circular. In particular, prospective purchasers of the Certificates agree and acknowledge that SAMA assumes no liability whatsoever to any purchaser of the Certificates for any loss arising from, or incurred as a result of, the occurrence of a Non-Viability Event. If you do not understand the contents of this Offering Circular, you should consult an authorised financial adviser. See "*Risk Factors–The circumstances triggering a Write-down are unpredictable*" and "*Risk Factors–The Certificateholders' right to receive payment of the principal amount of the Tier 2 Certificates will, and the Periodic Distribution Amounts in respect of Tier 2 Certificates may, be written-down (in whole or in part) upon the occurrence of a Non-Viability Event*".

The distribution of this Offering Circular and the offering, sale and delivery of the Certificates in any jurisdiction other than the Kingdom may be restricted by law.

Arrangers

J.P. Morgan | **Riyad Capital** | **Standard Chartered Bank**

Dealers

J.P. Morgan | **Riyad Capital** | **Standard Chartered Bank**

Each of the Trustee and Riyad Bank accepts responsibility for the information contained in this Offering Circular and the applicable Pricing Supplement for each Tranche issued under the Programme. To the best of the knowledge of each of the Trustee and Riyad Bank the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect its import.

Where information has been sourced from a third party, the Trustee, Riyad Bank and its subsidiaries taken as a whole (the "**Group**") confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by such third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of any third party information contained in this Offering Circular is stated where such information appears in this Offering Circular.

Each of the Trustee and Riyad Bank confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by the relevant sources referred to, no facts have been omitted which would render the reproduced information inaccurate or misleading.

This Offering Circular should be read and construed together with any amendments or supplements hereto and, in relation to any Tranche of Certificates, should be read and construed together with the applicable Pricing Supplement.

No person is or has been authorised by the Trustee or Riyad Bank to give any information or to make any representation not contained in or not consistent with this Offering Circular in connection with the Programme or the Certificates and, if given or made, such information or representation must not be relied upon as having been authorised by the Trustee, Riyad Bank, the Arrangers, the Dealers, the Delegate, the Agents, the Registrar (each as defined herein) or any other person.

Neither the delivery of this Offering Circular nor any sale of any Certificates shall, under any circumstances, constitute a representation or create any implication that the information contained herein is correct as of any time subsequent to the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Delegate, the Agents, the Registrar, the Arrangers and the Dealers expressly do not undertake to review the financial condition or affairs of the Trustee or Riyad Bank at any point, including during the life of the Programme, or to advise any investor in Certificates issued under the Programme of any information coming to their attention.

None of the Arrangers, the Dealers, the Registrar, the Delegate or the Agents has independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by any of them (a) as to the accuracy, adequacy, reasonableness or completeness of the information contained in this Offering Circular or any other information provided by Riyad Bank in connection with the Programme or (b) for any acts or omissions of the Trustee, Riyad Bank or any other person in connection with the Programme.

IMPORTANT INFORMATION RELATING TO THE USE OF THIS OFFERING CIRCULAR AND OFFERS OF CERTIFICATES GENERALLY

Neither this Offering Circular nor any other information supplied in connection with the Programme or any Certificates is (a) intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Trustee, Riyad Bank, the Arrangers, the Dealers, the Delegate, the Registrar or the Agents that any recipient of this Offering Circular should purchase any Certificates. Each investor contemplating purchasing any Certificates should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Trustee and Riyad Bank. None of the Arrangers, the Dealers, the Trustee, the Delegate, the Registrar or the Agents accepts any liability in relation to the information contained in this Offering Circular or any other information provided by the Trustee and Riyad Bank in connection with the Programme.

The Certificates are complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured and appropriate addition of risk to their overall portfolios. A potential investor should not invest in Certificates which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Certificates will perform under changing conditions, the resulting effects on the value of such Certificates and the impact this investment will have on the potential investor's overall investment portfolio.

Admission to trading on the ISM is not to be taken as an indication of the merits of the Trustee, Riyad Bank or the Certificates. The Certificates of any Series may not be a suitable investment for all investors. Each potential investor in Certificates must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

(a) has sufficient knowledge and experience to make a meaningful evaluation of the relevant Certificates, the merits and risks of investing in the relevant Certificates and the information contained in this Offering Circular or any applicable supplement;

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

(c) has sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Certificates, including where any Dissolution Amount or Periodic Distribution Amount (each as defined herein) are payable in one or more currencies, or where the currency for the Dissolution Amount or Periodic Distribution Amount payments are different from the potential investor's currency;

(d) understands thoroughly the terms of the relevant Certificates and is familiar with the behaviour of financial markets; and

(e) is able to evaluate possible scenarios for economic and other factors that may affect its investment and its ability to bear the applicable risks.

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

No comment is made or advice given by the Trustee, Riyad Bank, any Arranger, any Dealer, the Delegate, the Registrar or the Agents in respect of taxation matters relating to any Certificates or the legality of the purchase of the Certificates by an investor under any applicable law.

EACH PROSPECTIVE INVESTOR IS ADVISED TO CONSULT ITS OWN TAX ADVISER, *SHARI'A* ADVISER, LEGAL ADVISER AND BUSINESS ADVISER AS TO TAX, LEGAL, *SHARI'A*-COMPLIANCE, BUSINESS AND RELATED MATTERS CONCERNING THE PURCHASE OF ANY CERTIFICATES.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Certificates in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Certificates may be restricted by law in certain jurisdictions. None of the Trustee, Riyad Bank, the Arrangers, the Dealers, the Delegate, the Registrar or the Agents represents that this Offering Circular may be lawfully distributed, or that any Certificates may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Trustee, Riyad Bank, the Arrangers, the Dealers, the Delegate, the Registrar or the Agents which is intended to permit a public offering of any Certificates or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Certificates may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Certificates may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of the Certificates. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Certificates in the United States, the EEA (including the United Kingdom), the Cayman Islands, Japan, the United Arab Emirates (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, the Kingdom, the Kingdom of Bahrain, the State of Qatar (including the Qatar Financial Centre), the State of Kuwait, Singapore, Hong Kong, Malaysia and the People's Republic of China, see "*Subscription and Sale*".

To the fullest extent permitted by law, none of the Arrangers, the Dealers, the Registrar, the Agents or the Delegate accepts any responsibility (i) for the Programme or any Certificates issued thereunder, the Transaction Documents (as defined in "Terms and Conditions of the Certificates") (including the effectiveness thereof) or the contents of this Offering Circular, (ii) for any acts or omissions of the Trustee, Riyad Bank or any other person (other than the relevant Dealer or Arranger) in connection with the issue and offering of the Certificates or (iii) for any other statement made or information provided in connection with the Trustee, Riyad Bank, the Programme or any Certificates issued thereunder. Each Arranger, Dealer, Agent and the Delegate accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of the Programme or any Certificates issued thereunder, the Transaction Documents, this Offering Circular or any such statement.

None of the Arrangers, the Dealers, the Trustee, Riyad Bank, the Agents, the Registrar or the Delegate makes any representation to any investor in the Certificates in respect of taxation matters relating to any Certificates or the legality of the purchase of Certificates by an investor under applicable or similar laws. Any investor in the Certificates should be able to bear the economic risk of an investment in the Certificates for an indefinite period of time.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

Historical financial statements

The financial statements relating to the Group and included in this Offering Circular are:

- the audited consolidated financial statements as at, and for the year ended, 31 December 2018 (the "**2018 Financial Statements**"); and
- the audited consolidated financial statements as at, and for the year ended, 31 December 2019 (the "**2019 Financial Statements**" and, together with the 2018 Financial Statements, the "**Financial Statements**").

The 2018 Financial Statements were prepared in accordance with International Financial Reporting Standards ("**IFRS**") as modified by the Saudi Arabian Monetary Authority ("**SAMA**") for the accounting of Zakat and income tax, which requires the adoption of all IFRS as issued by the International Accounting Standards Board (the "**IASB**") except for the application of International Accounting Standard (IAS) 12 - "Income Taxes" and IFRIC 21 - "Levies" so far as these relate to Zakat and income tax, and in compliance with the provisions of the Banking Control Law, the regulations for companies in the Kingdom and the by-laws of the Bank. See note 2(a) to the 2018 Financial Statements.

The 2019 Financial Statements were prepared in accordance with IFRS as endorsed in the Kingdom and other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountants ("**SOCPA**") and in compliance with the provisions of the Banking Control Law, the regulations for companies in Saudi Arabia and by-laws of the Bank. See note 2(a) to the 2019 Financial Statements.

The Group's financial year ends on 31 December and references in this Offering Circular to "**2017**", "**2018**" and "**2019**" are to the 12-month period ending on 31 December in each such year.

The Trustee is a special purpose company established in the Cayman Islands. The Trustee is not required by Cayman Islands law, and does not intend, to publish audited financial statements or appoint an auditor.

Auditors and unaudited information

The 2018 Financial Statements have been jointly audited by Ernst & Young & Co. (Certified Public Accountants) and PricewaterhouseCoopers, certified public accountants (together the "**Auditors**"), in accordance with International Standards on Auditing as endorsed in the Kingdom ("**ISAs as endorsed in the Kingdom**"). The Auditors have issued an unqualified audit report on the 2018 Financial Statements.

The 2019 Financial Statements have been jointly audited by the Auditors in accordance with ISAs as endorsed in the Kingdom. The Auditors have issued an unqualified audit report on the 2019 Financial Statements.

Certain financial information in this Offering Circular is unaudited financial information which has been extracted without material adjustment from the accounting records of the Group which form the underlying basis of the Financial Statements. In particular, certain financial information included within "*Selected financial information—Selected consolidated ratios*" is identified as unaudited.

Certain non-IFRS financial information

This Offering Circular includes references to capital, leverage and certain other ratios. Although these ratios are not IFRS measures, the Group believes that the capital and leverage ratios in particular are important to understanding its capital and leverage position, particularly in light of current or planned future regulatory requirements to maintain these ratios above prescribed minimum levels.

Restatement of 2018 financial information

On 17 July 2019, SAMA instructed banks in Saudi Arabia to account for Zakat and income taxes in the statement of income rather than, as they had previously done, in the statement of equity. This aligns with IFRS and its interpretations as issued by the IASB endorsed in the Kingdom and with the other standards and pronouncements that are endorsed by SOCPA.

Accordingly, the Group changed its accounting treatment for Zakat and income tax by retrospectively adjusting the impact in line with International Accounting Standard (IAS 8) "Accounting Policies, Changes in Accounting Estimates and Errors" (as disclosed in note 3 to the 2019 Financial Statements) and the effects of this change are disclosed in note 26 to the 2019 Financial Statements. The change in accounting policies due to this new standard and treatment of Zakat and tax are disclosed in note 3 to the 2019 Financial Statements.

In addition to the above restatement, certain minor line item reclassification changes were made to the comparative financial information for 2018 included in the 2019 Financial Statements to match the presentation in the 2019 Financial Statements. Reflecting these changes, all 2018 financial information included in this Offering Circular has been extracted from the 2019 Financial Statements.

No similar changes have been made to the comparative 2017 financial information which appears in the 2018 Financial Statements and is the source of all 2017 financial information appearing in this Offering Circular. For such reasons, the 2017 financial information which appears in the 2018 Financial Statements is not comparable to the financial information disclosed in the 2019 Financial Statements.

Significant new accounting standards

IFRS 16

The Bank adopted IFRS 16 "Leases" with effect from 1 January 2019. IFRS 16 replaces the previous 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 stipulates that all leases and the associated contractual rights and obligations should generally be recognised in the Group's financial position, unless the term is 12 months or less or the lease is for a low value asset. Thus, the classification required under IAS 17 "Leases" into operating or finance leases is eliminated for lessees. For each lease, the lessee recognises a liability for the lease obligations incurred in the future. Correspondingly, a right to use the leased asset is capitalised, which is generally equivalent to the present value of the future lease payments plus directly attributable costs and which is amortised over the useful life.

The Group has opted for the modified retrospective application permitted by IFRS 16 upon adoption of the new standard. See further note 3 to the 2019 Financial Statements for an illustration of the impact of the adoption of IFRS 16 with effect from 1 January 2019.

IFRS 9

The Group adopted IFRS 9 "Financial Instruments" with effect from 1 January 2018. The requirements of IFRS 9 represented a significant change from the previous standard, IAS 39 "Financial Instruments: Recognition and Measurement". The new standard brought fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As permitted by IFRS 9, the Group elected to continue to apply the hedge accounting requirements of IAS 39.

The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarised in note 3.1 to the 2018 Financial Statements.

Presentation of Other Information

Currencies

Unless otherwise indicated, in this Offering Circular, all references to:

- "**riyal**" and "**SAR**" are to the lawful currency of Saudi Arabia;
- "**euro**" or "**€**" are to the currency introduced at the third stage of the European economic and monetary union pursuant to the Treaty Establishing the European Community, as amended;
- "**U.S. dollars**" and "**U.S.$**" are to the lawful currency of the United States; and
- "**Renminbi**", "**RMB**" or "**CNY**" are to the lawful currency of the PRC.

Unless otherwise indicated, the financial information contained in this Offering Circular has been expressed in riyal. The Bank's functional currency is the riyal and the Group prepares its financial statements in riyal.

The conversion of amounts from riyal to U.S. dollars in this Offering Circular is solely for the convenience of the reader. The riyal is pegged to the U.S. dollar at a fixed exchange rate (currently U.S.$1.00 = SAR 3.75) and, unless otherwise stated, all conversions of riyal amounts to U.S. dollar amounts in this Offering Circular have been converted at this rate. The peg to the U.S. dollar has been maintained by SAMA at this rate since 1986.

Third party and market share data

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

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

Statistical information relating to Saudi Arabia included in this Offering Circular has been derived from official public sources, including the GASTAT, SAMA, the Ministry of Finance, the Ministry of Economy and Planning, the IMF and OPEC. All such statistical information may differ from that stated in other sources for a variety of reasons, including the use of different definitions and cut-off times. This data may subsequently be revised as new data becomes available and any such revised data will not be circulated by the Group to investors who have purchased Certificates issued under the Programme.

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

No incorporation of website information

The Bank's website is www.riyadbank.com. The information on this website or any other website mentioned in this Offering Circular or any website directly or indirectly linked to these websites has not been verified and is not incorporated by reference into this Offering Circular, and investors should not rely on it.

Definitions

In this Offering Circular, references to:

- a "**billion**" are to a thousand million;
- the "**GCC**" are to the Cooperation Council for the Arab States of the Gulf, the members of which are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE;
- "**Government**" are to the Saudi Arabian government;
- the "**MENA region**" are to the Middle East and North Africa region; the "**PRC**" or "**China**" are to the People's Republic of China, excluding Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan; and
- "**Saudi Arabia**" or the "**Kingdom**" are to the Kingdom of Saudi Arabia.

Rounding

Certain data in this Offering Circular has been rounded to the nearest thousand, million or billion. For the purposes of calculating certain figures and percentages, the underlying numbers used have been extracted from the rounded figures presented in this Offering Circular rather than from the relevant financial statements. As a result of such rounding, the totals of data presented in tables in this Offering Circular may vary slightly from the arithmetic totals of such data. Where the figure "0" appears in a table, it means that the relevant data has been rounded to zero. Where the symbol "—" appears in a table, it means there is no data for the relevant item.

VOLCKER RULE

The Volcker Rule, which became effective on 1 April 2014, but was subject to a conformance period for certain entities that concluded on 21 July 2015, generally prohibits "banking entities" (which is broadly defined to include U.S. banks and bank holding companies and many non-U.S. banking entities, together with their respective subsidiaries and other affiliates) from (i) engaging in proprietary trading, (ii) acquiring or retaining an ownership interest in or sponsoring a "covered fund" and (iii) entering into certain relationships with "covered funds". The general effects of the Volcker Rule remain uncertain; any prospective investor in the Certificates and any entity that is a "banking entity" as defined under the Volcker Rule which is considering an investment in the Certificates should consult its own legal advisers and consider the potential impact of the Volcker Rule in respect of such investment. If investment by "banking entities" in the Certificates is prohibited or restricted by the Volcker Rule, this could impair the marketability and liquidity of such Certificates. No assurance can be made as to the effect of the Volcker Rule on the ability of certain investors subject thereto to acquire or retain an interest in the Certificates and accordingly, none of the Trustee, Riyad Bank, the Arrangers, the Dealers, the Delegate, the Registrar or the Agents, or any of their respective affiliates makes any representation regarding (a) the status of the Trustee under the Volcker Rule (including whether it is a "covered fund" for their purposes) or (b) the ability of any purchaser to acquire or hold the Certificates, now or at any time in the future.

BENCHMARKS REGULATION

Profit and/or other amounts payable under the Certificates may be calculated by reference to certain reference rates. Any such reference rate may constitute a benchmark for the purposes of Regulation (EU) 2016/1011 (the "**Benchmark Regulation**"). If any such reference rate does constitute such a benchmark, the Pricing Supplement will indicate whether or not the benchmark is provided by an administrator included in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 (*Register of administrators and benchmarks*) of the Benchmark Regulation. Transitional provisions in the Benchmark Regulation may have the result that the administrator of a particular benchmark is not required to appear in the register of administrators and benchmarks at the date of the Pricing Supplement. The registration status of any administrator under the Benchmark Regulation is a matter of public record and, save where required by applicable law, the Trustee does not intend to update the Pricing Supplement to reflect any change in the registration status of the administrator.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Some statements in this Offering Circular may be deemed to be "forward-looking statements". Forward-looking statements include statements concerning the Group's plans, objectives, goals, strategies and future operations and performance and the assumptions underlying these forward-looking statements. When used in this Offering Circular, the words "anticipates", "estimates", "expects", "believes", "intends", "plans", "aims", "seeks", "may", "will", "should" and any similar expressions generally identify forward-looking statements. These forward-looking statements are contained in the sections entitled "Risk Factors" and "Description of the Group" and other sections of this Offering Circular. The Group has based these forward-looking statements on the current view of its management with respect to future events and financial performance. Although the Group believes that the expectations, estimates and projections reflected in its forward-looking statements are reasonable, if one or more of the risks or uncertainties materialise, including those identified below or which the Group has otherwise identified in this Offering Circular, or if any of the Group's underlying assumptions prove to be incomplete or inaccurate, the Group's actual results of operation may vary from those expected, estimated or predicted. Investors are therefore strongly advised to read the sections "Risk Factors", "Description of the Group" and "The Kingdom of Saudi Arabia Banking Sector and Regulations", which include a more detailed description of the factors that might have an impact on the Group's business development and on the industry sector in which the Group operates.

The risks and uncertainties referred to above include:

- macro-economic and financial market conditions;
- credit risks, including the impact of a higher level of credit defaults arising from adverse economic conditions (in particular in relation to the real estate sector), the impact of provisions and impairments and concentration of the Group's financing portfolio;
- liquidity risks, including the inability of the Group to meet its contractual and contingent cash flow obligations or the inability to fund its operations; and
- changes in profit rates and other market conditions.

Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "Risk Factors".

These forward-looking statements speak only as at the date of this Offering Circular. Without prejudice to any requirements under applicable laws, the Group expressly disclaims any obligation or undertaking to disseminate after the date of this Offering Circular any updates or revisions to any forward-looking statements contained herein to reflect any change in expectations thereof or any change in events, conditions or circumstances on which any forward-looking statement is based. Given the uncertainties of forward-looking statements, the Group cannot assure potential investors that projected results or events will be achieved and the Group cautions potential investors not to place undue reliance on these statements.

NOTICE TO UK RESIDENTS

Any Certificates to be issued under the Programme which do not constitute "alternative finance investment bonds" ("**AFIBs**") within the meaning of Article 77A of the Financial Services and Markets Act 2000 (Regulated Activities) (Amendment) Order 2010 will represent interests in a collective investment scheme (as defined in the Financial Services and Markets Act 2000, as amended (the "**FSMA**")) which has not been authorised, recognised or otherwise approved by the United Kingdom Financial Conduct Authority. Accordingly, any Certificates to be issued under the Programme must not be marketed in the United Kingdom to the general public and this Offering Circular is not being distributed to, and must not be passed on to, the general public in the United Kingdom.

The distribution in the United Kingdom of this Offering Circular, any Pricing Supplement and any other marketing materials relating to the Certificates is being addressed to, or directed at: (A) if the distribution of the Certificates (whether or not such Certificates are AFIBs) is being effected by a person who is not an authorised person under the FSMA, only the following persons: (i) persons who are Investment Professionals as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Financial Promotion Order**"); (ii) persons falling within any of the categories of persons described in Article 49 (High net worth companies, unincorporated associations, etc.) of the Financial Promotion Order; and (iii) any other person to whom it may otherwise lawfully be made in accordance with the Financial Promotion Order; and (B) if the Certificates are not AFIBs and the distribution is effected by a person who is an authorised person under the FSMA, only the following persons: (i) persons falling within one of the categories of Investment Professional as defined in Article 14(5) of the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 (the "**Promotion of CISs Order**"); (ii) persons falling within any of the categories of person described in Article 22 (High net worth companies, unincorporated associations, etc.) of the Promotion of CISs Order; and (iii) any other person to whom it may otherwise lawfully be made in accordance with the Promotion of CISs Order.

Persons of any other description in the United Kingdom may not receive and should not act or rely on this Offering Circular, any Pricing Supplement or any other marketing materials in relation to any Certificates.

Prospective investors in the United Kingdom in any Certificates are advised that all, or most, of the protections afforded by the United Kingdom regulatory system will not apply to an investment in such Certificates and that compensation will not be available under the United Kingdom Financial Services Compensation Scheme.

Any prospective investor intending to invest in any investment described in this Offering Circular should consult its professional adviser and ensure that it fully understands all the risks associated with making such an investment and that it has sufficient financial resources to sustain any loss that may arise from such investment.

MIFID II PRODUCT GOVERNANCE / TARGET MARKET

The Pricing Supplement in respect of any Certificates may include a legend entitled "MiFID II Product Governance" which will outline the target market assessment in respect of the Certificates and which channels for distribution of the Certificates are appropriate. Any person subsequently offering, selling or recommending the Certificates (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to "MiFID II" is responsible for undertaking its own target market assessment in respect of the Certificates (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), any Dealer subscribing for any Certificates is a manufacturer in respect of such Certificates, but otherwise neither the Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

PROHIBITION ON SALES TO EEA AND UK RETAIL INVESTORS

If the Pricing Supplement in respect of any Tier 2 Certificates includes a legend entitled "Prohibition of Sales to EEA and UK Retail Investors", the Tier 2 Certificates are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA or in the UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II, or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"). Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended the "**PRIIPs Regulation**") for offering or selling the Tier 2 Certificates or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Tier 2 Certificates or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.

NOTICE TO RESIDENTS OF THE CAYMAN ISLANDS

No invitation, whether directly or indirectly, may be made to any member of the public of the Cayman Islands to subscribe for any Certificates to be issued under this Programme, and this Offering Circular shall not be construed as an invitation to the public of the Cayman Islands to subscribe for any such Certificates.

NOTICE TO RESIDENTS OF THE KINGDOM OF SAUDI ARABIA

This Offering Circular may not be distributed in the Kingdom except to such persons as are permitted under the Rules on the Offer of Securities and Continuing Obligations.

The CMA does not make any representation as to the accuracy or completeness of this Offering Circular and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Offering Circular. Prospective purchasers of Certificates issued under the Programme should conduct their own due diligence on the accuracy of the information relating to the Certificates. If you do not understand the contents of this Offering Circular, you should consult an authorised financial adviser.

SAMA does not make any representation as to the accuracy or completeness of this Offering Circular and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Offering Circular. In particular, prospective purchasers of Certificates agree and acknowledge that SAMA assumes no liability whatsoever to any purchaser of the Certificates for any loss arising from, or incurred as a result of, the occurrence of a Non-Viability Event. If you do not understand the contents of this Offering Circular, you should consult an authorised financial adviser. See "*Risk Factors – The circumstances triggering a Write-down are unpredictable*" and "*Risk Factors – The Certificateholders' right to receive payment of the principal amount of the Tier 2 Certificates will, and the Periodic Distribution Amounts in respect of Tier 2 Certificates may, be written-down (in whole or in part) upon the occurrence of a Non-Viability Event*".

NOTICE TO RESIDENTS OF THE KINGDOM OF BAHRAIN

In relation to investors in the Kingdom of Bahrain, Certificates issued in connection with this Offering Circular and related offering documents may only be offered in registered form to existing accountholders and accredited investors as defined by the Central Bank of Bahrain (the "**CBB**") in the Kingdom of Bahrain where such investors make a minimum investment of at least U.S.$100,000 or any equivalent amount in any other currency or such other amount as the CBB may determine.

This Offering Circular does not constitute an offer of securities in the Kingdom of Bahrain pursuant to the terms of Article (81) of the Central Bank and Financial Institutions Law 2006 (decree Law No. 64 of 2006). This Offering Circular and related offering documents have not been and will not be registered as a prospectus with the CBB. Accordingly, no securities may be offered, sold or made the subject of an invitation for subscription or purchase, nor will this Offering Circular or any other related document or material be used in connection with any offer, sale or invitation to subscribe or purchase securities, whether directly or indirectly, to persons in the Kingdom of Bahrain, other than to accredited investors for an offer outside the Kingdom of Bahrain.

The CBB has not reviewed, approved or registered this Offering Circular or related offering documents, and it has not in any way considered the merits of the securities to be offered for investment, whether in or outside the Kingdom of Bahrain. Therefore, the CBB assumes no responsibility for the accuracy and completeness of the statements and information contained in this Offering Circular and expressly disclaims any liability whatsoever for any loss howsoever arising from reliance upon the whole or any part of the content of this Offering Circular. No offer of securities will be made to the public in the Kingdom of Bahrain, and this Offering Circular must be read by the addressee only and must not be issued to, passed to or made available to the public generally.

NOTICE TO RESIDENTS OF SINGAPORE

Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (as modified or amended from time to time, the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), unless otherwise specified before an offer of Certificates, the Trustee has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Certificates are "prescribed capital markets products" (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

NOTICE TO RESIDENTS OF THE STATE OF QATAR

This Offering Circular does not and is not intended to constitute an offer, sale or delivery of the Certificates under the laws of Qatar and has not been and will not be reviewed or approved by or registered with the Qatar Financial Markets Authority, the Qatar Financial Centre Regulatory Authority or the Qatar Central Bank in accordance with their regulations or any other regulations in Qatar. The Certificates are not and will not be traded on the Qatar Stock Exchange.

NOTICE TO RESIDENTS OF MALAYSIA

Any Certificates to be issued under the Programme may not be offered for subscription or purchase and no invitation to subscribe for or purchase such Certificates in Malaysia may be made, directly or indirectly, and this Offering Circular or any document or other materials in connection therewith may not be distributed in Malaysia other than to persons falling within the categories of person set out in Schedule 6 or Section 229(1)(b), Schedule 7 or Section 230(1)(b) and Schedule 8 or Section 257(3) of the Capital Market and Services Act 2007 of Malaysia, as may be amended and/or varied from time to time and subject to any amendments to the applicable laws from time to time.

The Securities Commission of Malaysia shall not be liable for any non-disclosure on the part of the Trustee or Riyad Bank and assumes no responsibility for the correctness of any statements made or opinions or reports expressed in this Offering Circular.

STABILISATION

IN CONNECTION WITH THE ISSUE OF ANY TRANCHE OF CERTIFICATES, THE DEALER OR DEALERS (IF ANY) NAMED AS STABILISATION MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISATION MANAGER(S)) MAY EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE CERTIFICATES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION MAY NOT NECESSARILY OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE ISSUE DATE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE RELEVANT TRANCHE OF THE CERTIFICATES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE RELEVANT TRANCHE OF THE CERTIFICATES. ANY STABILISATION ACTION MUST BE CONDUCTED BY THE RELEVANT STABILISATION MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISATION MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

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RISK FACTORS

*Any investment in Certificates issued under the Programme is subject to a number of risks and uncertainties. Before making any investment decision, prospective investors should consider carefully the risks and uncertainties associated with an investment in any Certificates, the Group's business and the countries and markets in which it operates, together with all of the other information that is included in this Offering Circular. Prospective investors should also consult their own financial and legal advisers about the risks associated with an investment in Certificates issued under the Programme and the suitability of investing in those Certificates in light of their particular circumstances, without relying on the Trustee or the Group. Should one or more of the events or circumstances described as risks below occur at the same time or separately, this could have a material adverse effect on the Group. As used in this section, "**material adverse effect**" and related expressions when used in relation to the Group mean that the Group's financial condition, results of operations, liquidity, business, prospects and/or reputation could be materially adversely affected and/or the value of Certificates issued under the Programme could decline and these factors could result in an investor losing part or all of its investment.*

Each of the Trustee and the Group believes that the following factors may affect its ability to fulfil its obligations under the Certificates issued under the Programme. All of these factors are contingencies which may or may not occur, and neither the Trustee nor the Group is in a position to express a view on the likelihood of any such contingency occurring.

Factors which the Trustee and the Group believe may be material for the purpose of assessing the market risks associated with Certificates issued under the Programme are also described below.

Each of the Trustee and the Group believes that the factors described below represent the principal risks inherent in investing in Certificates issued under the Programme, but the Trustee and the Group may be unable to pay amounts due in connection with any Certificates for other reasons, and the Trustee and the Group do not represent that the statements below regarding the risks of holding any Certificates are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision.

The order in which the risks are presented below does not necessarily reflect the likelihood of their occurrence or the magnitude of their potential impact on the Trustee or the Group.

Factors that may affect the Trustee's ability to fulfil its obligations under Certificates issued under the Programme

The Trustee has no operating history and no material assets and will depend on receipt of payments from the Bank to make payments to Certificateholders

The Trustee was incorporated under the laws of the Cayman Islands on 6 June 2018 as an exempted company with limited liability and has no operating history. The Trustee has not engaged, and will not engage, in any business activity other than the issue of Certificates under the Programme, the acquisition of the Trust Assets as described herein, acting in the capacity of Trustee, and other activities incidental or related to the foregoing as required under the Transaction Documents.

The Trustee's only material assets, which will be held on trust for the Certificateholders, will be the Trust Assets related to each Series of Certificates, including its right to receive payments under the relevant Transaction Documents. The ability of the Trustee to pay amounts due on the Certificates of each Series will primarily be dependent upon receipt by the Trustee of all amounts due from the Bank under the relevant Transaction Documents. Therefore, the Trustee is subject to all the risks to which the Bank is subject to the extent that such risks could limit the Bank's ability to satisfy in full and on a timely basis its obligations under the relevant Transaction Documents. See "*—Risks relating to the Group*".

Risks relating to the Group

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

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

The Government is pursuing a policy of economic diversification away from its historic reliance on the hydrocarbon sector and has put in place certain initiatives to diversify Saudi Arabia's balance sheet and its economy and to reduce its economic and fiscal dependency on oil, including a national reform plan introduced in April 2016 called the "Saudi Vision 2030".

Saudi Arabia's economy currently remains dependent on its oil revenues and the price of crude oil on the world markets. The oil sector accounted for 43 per cent. of Saudi Arabia's real gross domestic product ("**GDP**") and 28 per cent. and 33 per cent. of Saudi Arabia's nominal GDP in the years ended 31 December 2017 and 2018, respectively. Oil exports also accounted for 77 per cent. and 79 per cent. of Saudi Arabia's total exports by value in the years ended 31 December 2017 and 2018, respectively. In addition, oil revenues accounted for 63 per cent. and 67 per cent. of total Government revenue in 2017 and 2018.

As oil is Saudi Arabia's most important export, material and prolonged changes in oil prices affect various macroeconomic and other indicators, including, but not limited to, GDP, Government revenues, balance of payments and foreign trade. International oil prices have fluctuated significantly over the past two decades and are likely to remain volatile in the future. For example, between mid-2014 and early 2016, international oil prices declined significantly, with the OPEC Reference Basket price (a weighted average of prices per barrel for petroleum blends produced by the OPEC countries) declining from a monthly average of U.S.$107.89 in June 2014 to a monthly average of U.S.$26.50 in January 2016 and a full year 2016 average of U.S.$40.76. Since 2016, international oil prices have recovered somewhat, helped by the introduction of a supply agreement in January 2017 between OPEC and key allies such as Russia which reduced global supply. In addition, in the second half of 2017, global demand became more robust, and by 31 December 2017, the monthly average OPEC Reference Basket price had increased to U.S.$62.06, with the full year average for 2017 being U.S.$52.43. In 2018, oil prices continued their recovery until October when the monthly average OPEC Reference Basket price reached U.S.$.79.38. This increase was further driven by the U.S. withdrawal from the Joint Comprehensive Plan of Action in May 2018. As other OPEC member countries increased their production to compensate for any fall in Iranian oil exports, oil prices dropped subsequently with a monthly average OPEC Reference Basket price of U.S.$56.95 in December 2018. During 2019, oil prices partially recovered with an average monthly OPEC Reference Basket price of U.S.$64.04 for the full year 2019. The price per barrel of Arabian Light Crude Oil (which is produced by Saudi Arabia and constitutes part of the OPEC Reference Basket) has also moved in line with these trends.

The downturn in oil prices in 2015 and 2016 had a significant effect on the economy of Saudi Arabia, as well as other GCC countries that are dependent on oil revenue. Low oil prices have obliged Saudi Arabia and the other GCC countries to reduce spending, which has dampened both consumption and investment. In nominal terms, Saudi Arabia's GDP declined by 13.5 per cent. in 2015 and by 1.4 per cent. in 2016, although it rebounded by 6.8 per cent. in 2017 and by 14.2 per cent. in 2018, reflecting the partial recovery of oil prices during this period. In real terms, Saudi Arabia's GDP grew by 4.1 per cent. in 2015 and by 1.7 per cent. in 2016, but fell by 0.7 per cent. in 2017 as oil production contracted. In 2018, real GDP grew by 2.4 per cent. In the third quarter of 2019, Saudi Arabia's real GDP declined by 0.5 per cent. compared with the third quarter of 2018. This contraction can be explained by a decrease in size of Saudi Arabia's oil sector over this period.

The Government's fiscal position has also deteriorated as a result of the downturn in oil prices, which was the main reason for the Government recording a budget deficit of 15.8 per cent. of GDP in 2015. This prompted the authorities to rein back spending sharply targeting a considerable reduction of the fiscal deficit in the following years. As a result of this fiscal austerity policy, real GDP growth notably declined over this period. The fiscal deficit dropped to 12.9 per cent. of GDP in 2016 and 9.3 per cent. of GDP in 2017. The partial recovery of oil prices after 2016 further bolstered this deficit reduction. At the beginning of 2018, the Government introduced a number of fiscal reform measures, in particular a value added tax ("VAT") of 5 per cent. and notable energy prices increases for domestic energy consumers. These additional non-oil revenues allowed the government to increase fiscal spending for that year. The fiscal deficit of 2018 further declined to 5.9 per cent. of GDP. In 2019, the fiscal deficit is estimated at 4.7 per cent. of GDP. For 2020, the Government anticipates a widening of the fiscal deficit to 6.4 per cent. of GDP, primarily due to lower anticipated revenues which will partially be balanced by lower spending.

As the dominant member of OPEC, Saudi Arabia has some influence over international oil prices. However, with the rise of non-OPEC production (such as US shale oil) this is far from absolute and international oil prices are expected to remain volatile. If oil prices remain at current levels or fall significantly in the future, or if there is a significant negative change in other macroeconomic factors (such as exchange rates, wage levels, unemployment, foreign investment and international trade), this could have a significant adverse effect on Saudi Arabia's economy, and the banking sector in particular. This could in turn have a material adverse effect on the Group's business, in particular through increases in the Group's non-performing loans and advances ("**NPL**") portfolio, increased loan loss provisions which would negatively impact the Group's profitability, a decline in the volume of transactions that the Group executes for its customers which would negatively affect its fee and commission income and reduced demand for loans and other banking products and services. See "*—The Group's customer financing portfolio, deposit base and investment securities portfolio are concentrated in Saudi Arabia*".

Current macroeconomic and financial market conditions have increased the risk of the Group's financings being impaired

As at 31 December 2019, the Group's NPLs represented 0.89 per cent. of its loans and advances, net (its "**customer financing portfolio**") compared to 1.03 per cent. as at 31 December 2018 and 1.02 per cent. as at 31 December 2017. The Group is exposed to the risk that borrowers may not repay their financing according to its contractual terms and that any collateral securing the payment of the financings may be insufficient. The Group continuously reviews and analyses its customer financing portfolio and credit risks, and its provision for losses on loans is based on, among other things, its analysis of the staging of customers and the probability of default and loss given default parameters for the different stages, loan management and the valuation of the underlying assets, as well as a number of other management assumptions. Factors which contribute to an increase in the amount of the Group's NPLs include growth in its customer financing portfolio, as well as any continued or intensified slowdown in the economy of Saudi Arabia.

Prolonged periods of low oil prices and associated changes in Government spending are the principal risk to the Bank's operating environment. See "*—The Group's operations and assets are principally located in Saudi Arabia and, accordingly, the Group is exposed to general economic conditions in Saudi Arabia*". Additionally, increases in global interest rates would also have an adverse impact on the macroeconomic environment, particularly as the fixed exchange rate between the riyal and the U.S. dollar means that Saudi Arabian interest rate policy effectively follows that of the US Federal Reserve. The main Saudi interbank rate partly reflects changes to the base rate, as well as local liquidity conditions. A tightening of monetary policy (including increases in interest rates) by global central banks has led to capital outflows from emerging market economies, including Saudi Arabia, with an associated impact on many emerging market economies.

Should Saudi Arabia and other regional oil producing countries elect to remove the foreign exchange peg of their domestic currencies to the U.S. dollar, this would pose systemic risks to the banking systems in the GCC. See "*—De-pegging the riyal from the U.S. dollar or re-pegging the riyal at a different rate could have a material adverse effect on the Group*".

The Government's generally tighter fiscal stance and its impact on the Saudi economy is expected to have an adverse effect on the Group's credit risk profile. The Group conducts regular stress tests of its customer financing portfolio under scenarios of differing severity in order to identify key vulnerabilities and to measure resultant impacts on asset quality and performance. However, these stress-testing activities do not provide assurance against impacts that may be realised through external shocks and customer defaults may nevertheless occur. The occurrence of these events and a material increase in loan losses could have a material adverse effect on the Group, in particular through increases in the Group's NPLs, increased loan loss provisions and write downs which would negatively impact the Group's profitability and reduce demand for loans and other banking products and services.

The Group's business is also exposed to financial and political conditions in Saudi Arabia

Many of the Group's customers and almost all of its business are based in Saudi Arabia. While Saudi Arabia is seen as a relatively stable political environment, certain other jurisdictions in the Middle East are not and there is a risk that regional geopolitical instability could impact Saudi Arabia. Instability in the Middle East may result from a number of factors, including government or military regime change, civil unrest or terrorism. In particular, since early 2011, there has been political unrest in a range of countries in or proximate to the MENA region. This unrest has ranged from public demonstrations to, in extreme cases, armed conflict (including the civil war in Yemen that began in 2015 and the multinational conflict with Islamic State) and the overthrow of existing leadership in a number of countries, and it has given rise to increased political uncertainty across the region. These situations have caused disruption to the economies of affected countries and have had a destabilising effect on international oil and gas prices. Though the effects of the uncertainty have been varied, it is not possible to predict the occurrence of events or circumstances such as war or hostilities, or the impact of such occurrences, and no assurance can be given that Saudi Arabia would be able to sustain its current economic growth levels if adverse political events or circumstances were to occur.

In June 2017, three GCC countries, Saudi Arabia, the UAE and Bahrain, and two other regional countries, Egypt and Yemen, severed diplomatic ties with Qatar, cut transport links and imposed sanctions on Qatar. The stated rationale for such actions was Qatar's support of terrorist and extremist organisations and Qatar's interference in the internal affairs of other countries. Saudi Arabia and other regional countries are currently conducting an air campaign against Al-Houthi forces in Yemen. Saudi Arabia has been targeted on several occasions by ballistic missiles fired by Al-Houthi forces during 2017 and 2018, all of which have, to date, been successfully intercepted by Saudi Arabia's defence systems. Debris from the missiles has resulted in one death and two injuries. There can be no assurance that the conflict in Yemen will not continue or re-escalate.

In September 2019, a drone attack was conducted on Saudi Arabian Oil Company ("**Saudi Aramco**") oil processing facilities at Abqaiq and Khurais in eastern Saudi Arabia. As a consequence, monthly oil production of Saudi Aramco dropped from 9.79 million barrels per day in August to 9.13 million barrels per day in September. In October, oil production rebounded to 10.30 million barrels a day. It cannot be ruled out that such attacks on oil industry infrastructure may occur again. A protracted oil production outage, caused by such attacks, could negatively affect Saudi Arabia's oil revenues and, hence, the Government's fiscal balance.

Saudi Arabia has experienced occasional terrorist attacks and other disturbances in recent years, including incidents in Jeddah, Medina and Qatif in July 2016. There can be no assurance that extremists or terrorist groups will not attempt to target Saudi Arabia or commit, or attempt to commit, violent activities in the future. Any occurrences or escalation of terrorist incidents or other disturbances in Saudi Arabia could have an adverse impact on Saudi Arabia's economy which in turn could negatively impact its banking sector.

Tensions have persisted between Saudi Arabia and Iran, as exemplified in January 2016 by Saudi Arabia recalling its ambassador to Iran. In addition, on 8 May 2018, the United States announced its withdrawal from the comprehensive agreement between the U.N. Security Council's five permanent members plus Germany and Iran that was reached on July 2015, reinstating U.S. nuclear sanctions on the Iranian regime. The United States also announced that it would not renew exceptional waivers for importing Iranian oil for several oil-importing countries, effective from May 2019, and on 2 January 2020, the United States carried out a military strike which killed a senior Iranian military commander. As a result of this military strike, Iran launched missiles at a US base in Iraq. Any continuation or increase in international or regional tensions regarding Iran including further attacks on or seizures of oil tankers which disrupt international trade, including any impairment of trade flow through the Strait of Hormuz, or any military conflict, could have a destabilising impact on the Gulf region, including with respect to Saudi Arabia and its ability to export oil.

Further, since the political, economic and legal environments in Saudi Arabia remain subject to continuous development, investors face uncertainty as to the security of their investments. The Group's operations in Saudi Arabia are exposed to risks common to all regions that have recently undergone, or are undergoing, political, economic and social change, including changes relating to an evolving regulatory environment, inflation, changes in disposable income or gross national product, variations in commission rates, levels of economic growth and other similar factors. See "*Risks relating to Saudi Arabia*". Many of these factors are entirely beyond the Group's control.

The Group is exposed to the credit risk of borrowers and other counterparties due to its financing and investment activities

Risks arising from adverse changes in the credit quality and recoverability of financing, securities and other amounts due from counterparties are inherent in a wide range of the Group's businesses, principally in its financing and investment activities. In particular, the Group is exposed to the risk that its counterparties may not meet their obligations in respect of financing advanced by the Group and that the collateral (if any) securing the financing advanced may be insufficient.

Credit losses could arise from a deterioration in the credit quality of specific issuers and counterparties of the Group, from a general deterioration in local or global economic conditions, or from systemic risks within these financial systems, any of which could affect the recoverability and value of the Group's assets and require an increase in its provisions for the impairment of loans, securities and other credit exposures.

As at 31 December 2019, the Group's customer financing portfolio amounted to SAR 173,982 million, compared to SAR 151,025 million as at 31 December 2018 and SAR 138,838 million as at 31 December 2017. The Group's NPLs were SAR 1,554 million as at 31 December 2019 compared to SAR 1,561 million as at 31 December 2018 and SAR 1,412 million as at 31 December 2017, and its allowance for impairments in respect of its customer financing portfolio amounted to 1.6 per cent., 1.6 per cent. and 1.5 per cent. of the value of its customer financing portfolio as at 31 December 2019, 31 December 2018 and 31 December 2017, respectively.

Saudi Arabia has continued to experience weaker economic conditions since 2017 which may well give rise to increased credit losses at Saudi Arabian banks, including the Bank. The amount of the Group's loans and advances that were more than 90 days overdue decreased from SAR 1,966 million as at 31 December 2017 to SAR 1,022 million as at 31 December 2019, a decrease of 48 per cent.

Any failure by the Group to maintain the quality of its assets through effective risk management policies could lead to higher loss provisioning and result in higher levels of defaults and write-offs, all of which would be likely to reduce the Group's profitability.

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

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

The Group's customer financing portfolio, deposit base and investment securities portfolio are concentrated in Saudi Arabia

Geographically, the Group's customer financing portfolio and its investments, net are concentrated in Saudi Arabia. Together, these portfolios aggregated SAR 227,343 million, or 85.5 per cent. of the Group's total assets as at 31 December 2019, compared to SAR 199,018 million, or 86.6 per cent. of the Group's total assets as at 31 December 2018 and SAR 185,208 million, or 86.4 per cent. of the Group's total assets, as at 31 December 2017.

The Group's investment securities portfolio principally comprises fixed and floating rate securities, with SAR 49,287 million, or 92.3 per cent., of the portfolio being fixed and floating rate instruments as at 31 December 2019, compared to SAR 45,648 million, or 94.9 per cent., as at 31 December 2018 and SAR 43,661 million, or 94.1 per cent., as at 31 December 2017.

As at 31 December 2019, 97.3 per cent. of the Group's customer financing portfolio and 63.9 per cent. of its investment securities portfolio were classified as Saudi Arabian risk, i.e. the borrowers or the issuers of such securities are Saudi Arabian entities.

The Group's customer deposits aggregated SAR 194,518 million, equal to 86.4 per cent. of its total liabilities, as at 31 December 2019, compared to SAR 169,822 million, or 87.9 per cent. of its total liabilities, as at 31 December 2018 and SAR 154,366 million, or 86.9 per cent. of its total liabilities, as at 31 December 2017.

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

The Group has significant customer and sector concentrations

The Group's customer financing portfolio is concentrated in a small number of industry sectors. As at 31 December 2019, net loans and advances to the commerce sector, the manufacturing sector and the building and construction sector accounted for 24.7 per cent., 13.9 per cent. and 8.5 per cent., respectively, of the Group's total net loans and advances. In addition, consumer loans and credit card advances accounted for 32.3 per cent. of the Group's total net loans and advances as at the same date. Of these sectors, the building and construction sector in particular has experienced difficulties, in part as a result of delayed Government payments to contractors for infrastructure projects for a lengthy period. This has led to the Group restructuring some loans and advances to companies within this sector.

In addition, a significant proportion of the Group's customer financing portfolio is made up of loans and advances to a relatively small number of customers. As at 31 December 2019, the Group's 10 largest loans and advances outstanding as a percentage of its customer financing portfolio was 7.8 per cent. compared to 8.9 per cent. as at 31 December 2018, and 10.8 per cent. as at 31 December 2017.

As at 31 December 2019, Government and quasi-Government issuers accounted for 55 per cent. of the securities in the Group's investment securities portfolio.

As a result, a material weakening in the credit quality of, or a default by, any one or more of the Group's large financing counterparties or issuers of debt securities, or any factors which negatively impact any of the sectors to which the Group has significant exposure, could result in the Group having to make significant additional loss provisions and/or experiencing reduced special commission income. Sector specific factors might include:

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

The Group also has a high concentration of deposits from individual depositors, mainly Government and quasi-Government depositors. In terms of liabilities, the Group's 10 largest customer deposits as at 31 December 2019 constituted 31.7 per cent. of its total customer deposits at that date. The withdrawal or non-renewal of its deposits by any one or more of the Group's material depositors could require the Group to obtain replacement funding from other sources which may not be readily available or may be significantly more expensive, which would reduce the Group's margins and adversely impact its operating income and profitability. See further "—*The Group is subject to the risk that liquidity may not always be readily available*".

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

As part of its normal banking business, the Group issues guarantees, letters of credit ("**LCs**") and acceptances which are accounted for off the Group's balance sheet until such time as they are actually funded or cancelled. In addition, the Group makes irrevocable commitments to advance credit to its customers. Although these commitments are contingent, they nonetheless subject the Group to both credit and liquidity risks. As at 31 December 2019, the Group had SAR 12,337 million in irrevocable commitments to extend credit.

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

A substantial increase in impairment provisions for doubtful loans and advances or the occurrence of losses greater than the previously recorded impairment provisions would adversely affect the Group

In connection with its financing activities, the Group periodically establishes impairment allowances for financing losses, which are recorded in its income statement. Prior to 1 January 2018, the Group's overall level of impairment provisioning was based upon IAS-39 (incurred credit loss), that is, assessment of prior loss experience, the volume and type of financing advanced to its customers, the amount and type of collateral held, industry standards, ageing/past due loans, economic conditions and the outlook of the Saudi Arabian economy are also taken into consideration.

On 1 January 2018, the Group adopted IFRS 9: Financial Instruments ("**IFRS 9**") which, among other things, introduces an "expected credit loss" ("**ECL**") model for the measurement of the impairment of financial assets, such that it is no longer necessary for a credit event to have occurred before a credit loss is recognised. The Group has provided for an appropriate level of provision for credit losses based on management's best estimate of the expected credit losses.

The Group is exposed to reputational risks related to its operations and industry

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

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

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

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

Liquidity risk is the risk that the Group will be unable to meet its obligations, including funding commitments, as they become due. This risk is inherent in banking operations and can be heightened by a number of enterprise-specific factors, including over-reliance on a particular source of funding (including, for example, short-term and overnight funding), changes in credit ratings or market-wide phenomena such as market dislocation and major disasters. Credit markets worldwide experienced a severe reduction in liquidity in the final quarter of 2008 and the first half of 2009. Since then, financial institutions have continued to experience periods of reduced liquidity. In addition, quantitative easing by the world's major central banks is now being gradually withdrawn, indicating that periodic liquidity pressures could become more frequent and more acute.

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

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

The Group has historically relied on both customer and interbank deposits, which are mainly short-term and generally low cost in nature, to meet most of its funding needs. The availability of deposits is subject to fluctuation due to factors outside the Group's control, including possible loss of confidence and competitive pressures, and this could result in a significant outflow of deposits within a short period of time or may cause the Group to increase the return paid on its deposits to ensure that it retains sufficient deposits. As at 31 December 2019, the Group's deposits did not have a fixed maturity, although, as is typical in the Saudi Arabian banking industry, these deposits have generally proved to be a stable source of funding based on historical behaviour analysis. Nevertheless, they are effectively repayable on demand. As at the same date, 79.9 per cent. of the Group's non-equity funding (which comprises amounts due to banks and other financial institutions, customer deposits and debt securities in issue) had remaining contractual maturities of up to three months or was payable on demand and 93.5 per cent. had remaining maturities of one year or less or was payable on demand. These percentages were 86.9 per cent. and 95.1 per cent., respectively, as at 31 December 2018. The Group may experience outflows of deposits at times when liquidity is constrained generally in Saudi Arabia or when its major depositors experience short - or longer-term liquidity requirements. Particularly, if international oil and gas prices fall significantly, the Group's large depositors (including the Government and quasi-Governmental depositors) may start to withdraw part or even all of their deposits with it.

In early 2016, SAMA raised the maximum allowable Loans to Deposit Ratio ("**LDR**") for banks in Saudi Arabia from 85 per cent. to 90 per cent. This measure was intended to allow banks to continue extending credit while limiting price competition for deposits and reducing the need for banks to use expensive long-term borrowing. The LDR is a financial measure for assessing a bank's liquidity and is calculated by dividing a bank's net loans and advances by the sum of its customer deposits, debt securities in issue and other liabilities. There has been a significant increase in the LDR across the Saudi banking sector with the LDR of Saudi banks rising at times to the 90 per cent. cap introduced in 2016 (as at 31 December 2019, 31 December 2018 and 31 December 2017, the Bank's LDR as per the applicable SAMA rules was 82.3 per cent., 82.4 per cent. and 83.8 per cent., respectively). The LDRs of banks in Saudi Arabia have been, and may continue to be, impacted by credit growing at a faster rate than liabilities, in part due to a general slowdown in payments by the Government in 2016, resulting in withdrawals of deposits and increased demand for working capital by corporate clients. With effect from April 2018, the LDR calculation (which includes sukuk) was modified through placing higher weights for long-term deposits to encourage banks to introduce savings products.

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

If a substantial portion of the Group's depositors, or any of its largest depositors, withdraw their demand deposits or do not roll over their time deposits at maturity, the Group may need to seek other sources of funding or may have to sell, or enter into sale and repurchase or securitisation transactions over, certain of its assets to meet its funding requirements. There can be no assurance that the Group will be able to obtain additional funding as and when required or at prices that will not affect its ability to compete effectively and, if the Group is forced to sell assets to meet its funding requirements, it may suffer material losses as a result.

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

The Group could be adversely affected by market risks

The Group could be adversely affected by market risks that are outside its control, including, without limitation, material adverse changes in interest rates, prices of securities and currency exchange rates. In particular, an increase in interest rates generally may decrease the value of the Group's fixed-rate loans and securities and may increase the Group's funding costs. In addition, fluctuations in interest rates may result in a pricing gap between the Group's interest-rate sensitive assets and liabilities. For example, the Group generally has a discretionary right to change the rates it charges on its customer financing whilst the rates that it pays on a part of its customer deposit base (namely, term deposits) are contractually fixed for the term of the deposit. As a result, the Group generally experiences an increase in its net special commission income in times of rising interest rates and a reduction in its net special commission income in times of falling interest rates. See "*Financial review—Principal factors affecting results of operations—Factors affecting net special commission income*" as well as note 31.2(i) to the 2019 Financial Statements which illustrates the Group's sensitivity to a 100 basis point change in interest rates on major currencies, such as the riyal and the U.S. dollar, as at 31 December 2019 and 31 December 2018. Interest rates are sensitive to many factors beyond the Group's control, including the policies of central banks, such as SAMA and the U.S. Federal Reserve, political factors and domestic and international economic conditions.

As a financial intermediary, the Group is also exposed to foreign exchange rate risk. This risk includes the possibility that the value of a foreign currency asset or liability will change due to changes in currency exchange rates as well as the possibility that the Group may have to close out any open position in a foreign currency at a loss due to an adverse movement in exchange rates. The Group attempts to match the currencies of its assets and liabilities and any open currency position is maintained within the limits set by SAMA. However, where the Group is not so hedged, it is exposed to fluctuations in foreign exchange rates and any such hedging activity may not in all cases protect the Group against such risks. See note 31.2(iii) to the 2019 Financial Statements which illustrates the Group's sensitivity to a 1 per cent. change in the exchange rate of a number of significant currencies against the riyal as at 31 December 2019 and 31 December 2018. See also "*—De-pegging the riyal from the U.S. dollar or re-pegging the riyal at a different rate could have a material adverse effect on the Group*".

The Group also has a portfolio of fair value through other comprehensive income ("**FVOCI**") equity investments which are exposed to the effect of changes in market prices on their fair value. See note 31.2(v) to the 2019 Financial Statements which illustrates the Group's sensitivity to a 5 and 10 per cent. change in market indices on this portfolio as at 31 December 2019 and 31 December 2018.

The Group enters into derivative transactions, such as commission rate and currency swaps, forward and future contracts and options, as part of its ordinary customer business, to manage its market risks and to take advantage of price differentials or anticipated market movements. These derivative contracts had a notional value of SAR 73,372 million as at 31 December 2019 compared to SAR 63,006 million as at 31 December 2018 and SAR 33,102 million as at 31 December 2017, and the Group's derivatives portfolio had a net negative fair value of SAR 40 million as at 31 December 2019 compared to net positive fair values of SAR 12 million as at 31 December 2018 and SAR 38 million as at 31 December 2017. There is no assurance that the Group's derivative contracts will be successful in mitigating its interest rate and foreign exchange exposures or that the Group will not experience significant losses on its derivatives contracts from time to time.

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

The Group is exposed to a range of operational risks. In particular, the Group is exposed to the risk of loss as a result of employee misrepresentation, misconduct and improper practice and through any failure of the Group's information technology ("IT") systems

Operational risk and losses can result from fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorisation, and conduct of business rules, systems and equipment failures (including, in particular, IT failures), natural disasters or the failure of external systems (for example, those of the Group's counterparties or vendors). The Group has implemented risk controls and loss mitigation strategies, and substantial resources are devoted to developing efficient procedures and to staff training, but it is not possible to eliminate entirely each of the potential operational risks that the Group faces. Losses from the failure of the Group's system of internal controls could have a material adverse effect on its business generally and its reputation.

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

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

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

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

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

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

There can be no assurance that the Group's risk management and internal control policies and procedures will adequately control, or protect it against, all credit, liquidity, market, operational and other risks. In addition, certain risks may not be accurately quantified by the Group's risk management systems. Some of the Group's methods of managing risk are based upon the use of historical market data which, as evidenced by events caused by the global financial crisis, may not always accurately predict future risk exposures which could be significantly greater than historical measures indicate. In addition, certain risks could be greater than the Group's empirical data would otherwise indicate.

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

The Group's ability to grow its net income depends on a number of factors, some of which the Group cannot control

The Group experienced an increase in its net income for the year before Zakat from SAR 4,716 million in 2018 to SAR 6,232 million in 2019, representing an increase of 32.1 per cent. In 2018, the Group's net income for the year before Zakat increased by SAR 770 million, or 19.5 per cent., compared to net income for the year in 2017. The Group intends to grow its business in order to meet its strategic objectives, including support of the Saudi Vision 2030 and the National Transformation Program 2020. See "*—The Group's operations and assets are principally located in Saudi Arabia and, accordingly, the Group is exposed to general economic conditions in Saudi Arabia*".

Whether the Group's anticipated growth can be achieved is dependent on a number of factors, including the performance of the Saudi Arabian economy, the successful implementation of the Saudi Vision 2030 and the National Transformation Program 2020, and the prevailing market price of oil. In addition, management of the Group's anticipated future growth will require, among other things, continued development of its financial and information management control systems, the ability to develop and introduce successfully new products and services, the ability to attract and retain sufficient numbers of qualified management and other personnel, the continued training of such personnel, the presence of adequate supervision and the provision of consistently high levels of customer service.

The Group is subject to extensive regulation and changes in this regulation, or the interpretation or enforcement of this regulation, or any failure by the Group to comply with this regulation could have a material adverse effect on the Group

The Group is subject to a number of laws, regulations, administrative actions and policies designed to maintain the safety and soundness of banks in Saudi Arabia, ensure their compliance with economic and other obligations and limit their exposure to risk. These laws and regulations include Saudi laws and regulations, particularly those issued by SAMA and the CMA. See "*The Kingdom of Saudi Arabia Banking sector and regulations*". These regulations may limit the Group's activities and the Bank's ability to carry on certain parts of its business or to grow its business generally and any changes to such regulations may increase the Group's cost of doing business. In addition, a breach or violation of any regulations applicable to the Group could expose it to potential liabilities, fines and reputational damage. Changes in these laws and regulations (such as the changes pursuant to Basel II and Basel III described under "*The Kingdom of Saudi Arabia Banking sector and regulations*") and the manner in which they are interpreted or enforced or implemented may also impose significant additional compliance costs on the Group.

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

There is increased international scrutiny of banks operating in all markets, including Saudi Arabia, in connection with anti-money laundering ("**AML**"), anti-terrorist financing, sanctions and other regulations, some of which are international in their application. In addition, Saudi Arabia has adopted a relatively comprehensive legislative and regulatory framework that deals with money laundering and terrorist financing as is described under "*The Kingdom of Saudi Arabia Banking sector and regulations*". These laws and regulations require the Group, among other things, to adopt and enforce "know your customer" ("**KYC**") policies and procedures and to report suspicious and large transactions as part of their AML requirements to the applicable regulatory authorities. The Group has adopted KYC and AML policies and procedures and reviews them regularly in light of regulatory and market developments. In the event of actual or alleged compliance breaches, the Group may become subject to investigation and judicial or administrative proceedings, which could result in financial penalties or lawsuits (including by customers) for damages and/or the loss of the Group's ability to do business in the international banking market or specific jurisdictions or even the loss of its Saudi Arabian banking licence. Any such sanctions would be likely to materially damage its reputation and materially adversely impact its cash flow and profitability.

The Group's internal compliance systems might not be fully effective in all circumstances

The Group's ability to comply with all applicable regulations is largely dependent on its maintenance of compliance, audit and reporting systems and procedures, and its ability to attract and retain personnel qualified to manage and monitor such systems and procedures. Although the Group is subject to oversight by regulatory authorities, including regular examination activity and annual supervisory review visits, and performs regular internal audits and employs an external auditing firm to review its internal auditing function as required by applicable regulations, the Group cannot be certain that these systems and procedures will be fully effective in all circumstances, particularly in the case of deliberate employee misconduct or other frauds perpetrated against it. In the case of actual or alleged non-compliance with applicable regulations, the Group could be subject to investigations and judicial or administrative proceedings that may result in substantial penalties or civil lawsuits for damages that could have a material adverse effect on the Group.

A negative change, or perceived negative change, in the Bank's credit rating could limit its ability to raise funding and may increase the Group's borrowing costs

The Bank currently has a long-term foreign currency issuer default rating of BBB+ with a stable outlook from Fitch Ratings Ltd ("**Fitch**"), a counterparty credit rating of BBB+ with stable outlook from Standard & Poor's ("**S&P**") and a long-term foreign currency rating of A+ with stable outlook from Capital Intelligence Ratings Ltd ("**Capital Intelligence**"). These credit ratings are an important factor in determining the Group's cost of borrowings. The special commission rates charged on the Group's borrowings are also partly dependent on its credit ratings.

There is no assurance that the Bank's ratings will remain in effect for any given period of time or that the ratings will not be lowered or withdrawn entirely if circumstances in the future so warrant. A downgrade, or increased risk of a downgrade, of the Bank's credit ratings, or a negative change in their outlook, may:

- limit the Bank's or any other member of the Group's ability to raise funding;
- increase the Bank's or any other member of the Group's cost of borrowing; and
- limit the Bank's or any other member of the Group's ability to raise capital.

In addition, actual or anticipated changes in the Bank's credit rating may negatively affect the market value of any Certificates issued under the Programme.

In addition, the credit ratings assigned to the Bank may not reflect the potential impact of all risks related to an investment in Certificates issued under the Programme, the market, additional factors discussed in this Offering Circular and other factors that may affect the value of any Certificates. A security rating is not a recommendation to buy, sell or hold securities. Ratings may be subject to revision or withdrawal at any time by the assigning rating organisation and each rating should be evaluated independently of any other rating.

The Group may not be able to raise capital as and when needed on commercially attractive terms

As at 31 December 2019, the Group's tier 1 capital adequacy ratio (calculated according to Basel III standards for Pillar 1) was 16.3 per cent. and its total capital adequacy ratio was 18.1 per cent. The Group has been designated as a domestically systemic important bank ("**D-SIB**") with an additional common equity tier 1 D-SIB surcharge of 0.5 per cent. Accordingly, the Group's total minimum Pillar 1-based capital requirement as at 31 December 2019 was 11.05 per cent., which also included a capital conservation buffer of 2.50 per cent. and a countercyclical capital buffer of 0.505 per cent.

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

A variety of factors affect the Group's capital adequacy levels. For example, a significant increase in lending in 2019 and beyond would be likely to reduce the Group's capital adequacy ratios and any losses experienced by it in future periods would have a similar effect. In addition, regulatory requirements in relation to the calculation of capital adequacy and required levels of capital adequacy may change from time to time, including as a result of new guidelines issued by the Basel Committee on Banking Supervision. The Group may also need to increase its capital as a result of market perceptions of adequate capitalisation levels and the perceptions of rating agencies.

As a result, the Group is likely to need to obtain additional capital in the future to support the future growth of its business. Such capital, whether in the form of debt financing or additional equity, may not be available on commercially favourable terms, or at all. Moreover, should the Group's capital ratios fall close to regulatory minimum levels or the Group's own internal minimum levels, the Group may need to adjust its business practices, including reducing the risk and leverage of certain activities or undertaking asset disposals. If the Group is unable to maintain satisfactory capital adequacy ratios, its credit ratings may be lowered and its cost of funding may therefore increase and it may suffer regulatory sanctions. Any such development may have a material adverse effect on the Group.

Increasing competition may affect the Group's results of operations

All sectors of the Saudi Arabian market for financial and banking services are highly competitive and the Group faces competition from local and foreign banks that operate in Saudi Arabia. As at 31 December 2019, there were 25 banks and financial institutions operating with at least one branch in Saudi Arabia, of which 11 were incorporated in Saudi Arabia. The remaining 14 were branches of foreign banks licensed to operate in Saudi Arabia. In the past few years, SAMA has awarded banking licences to a number of international banks, which has resulted in increased competition with respect to the sale of products and geographical spread and in the provision of banking services in general to all types of customer.

Any failure by the Group to successfully develop and implement its strategy in the coming years could negatively affect its competitive position in Saudi Arabia which could result in reduced income or a failure to achieve anticipated levels of income.

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

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

Management has identified certain accounting policies in the notes to its financial statements as being significant because they require management's judgment to ascertain the valuations of assets, liabilities, commitments and contingencies. See note 3 to the 2019 Financial Statements. In addition, note 2(d) to the 2019 Financial Statements identifies the most critical accounting judgments, estimates and assumptions made by the Group. These judgments include, for example, the determination of impairment allowances and fair values of unquoted assets and liabilities.

A variety of factors could affect the ultimate value that is obtained either when recognising income or expenses, recovering an asset or reducing a liability. The Group has established policies and control procedures that are intended to ensure that its accounting judgments and estimates are monitored and applied consistently. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. Because of the uncertainty surrounding the Group's judgments and the estimates pertaining to these matters, the Group cannot guarantee that it will not be required to make changes in accounting estimates or restate prior period financial statements in the future.

Further, potential changes to accounting policies or reclassifications could have a material effect on the financial condition or results of operation of the Group. For example, IFRS 16 "Leases" is effective for annual periods beginning on or after 1 January 2019 replacing IAS 17 "Leases". The Group has opted for the modified retrospective application permitted by IFRS 16. Under IFRS 16 a lessee is required to recognise a right-of-use

("**ROU**") asset, by recording its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments, in its financial statements. A lessee recognises depreciation of the ROU asset and interest on the lease liability. The amount of lease liability associated with each of the Group's ROU leased assets is measured using the Group's incremental borrowing rate as the discount rate at the application date.

The basis of preparation, relating to Zakat, has been changed. Previously, Zakat was recognised under "Statement of Changes in Equity" but now it is charged to "Statement of Income". Zakat is not accounted for as income tax and hence there is no deferred tax.

The Group may not be able to recruit and retain qualified and experienced personnel, which could have an adverse effect on its business and its ability to implement its strategy

The Group's success and ability to maintain current business levels and sustain growth will depend, in part, on its ability to continue to recruit and retain qualified and experienced banking and management personnel. The market for such personnel in the Middle East is intensely competitive and the Group could face challenges in recruiting and retaining such personnel to manage its businesses.

The Group depends on the efforts, skill, reputation and experience of its senior management, as well as synergies among their diverse fields of expertise and knowledge. The loss of key personnel could delay or prevent the Group from implementing its strategies and the Group may not be able to replace any such lost personnel easily or quickly. The Group is also not insured against losses that may be incurred in the event of the loss of any member of its key personnel.

The interests of the Government, through its direct and indirect ownership interests, may not be aligned with the interests of the Certificateholders

The Bank's principal shareholders are the Public Investment Fund (the "**PIF**"), a Government-owned investment fund, which holds 21.75 per cent. of the Bank's shares and the General Organization for Social Insurance (the "**GOSI**"), which holds 16.72 per cent. of the Bank's shares. The GOSI is a Government-controlled entity, which means that the Government, through these entities, controls 38.47 per cent. of the shares in the Bank. As a result, the Government has the ability to influence the Bank's business through its ability to control certain decisions and actions that require shareholder approval. If circumstances were to arise where the interests of the Bank's principal shareholders conflict with the interests of its creditors (including the Certificateholders), the Certificateholders may be disadvantaged by any such conflict.

The Government is under no obligation to support the Group and there is no assurance that the Group will receive any Government support in the future

Although the Government has in the past supported the domestic banking industry, including in the period following the global financial crisis, there can be no assurance that it will continue to provide support to the domestic banking industry, including the Bank, in the future. Certificates issued under the Programme are not guaranteed by the Government, any of the Bank's shareholders or any other party.

De-pegging the riyal from the U.S. dollar or re-pegging the riyal at a different rate could have a material adverse effect on the Group

The primary exchange rate of relevance to the Group is the riyal/U.S. dollar rate. The riyal is pegged to the U.S. dollar at a fixed exchange rate which is currently U.S.$1: SAR 3.75. The peg to the U.S. dollar has been maintained by SAMA at the same rate since 1986. In response to persistently low oil prices in recent years, certain regional oil-producing countries, including Saudi Arabia, that have traditionally "pegged" their domestic currencies to the U.S. dollar, have faced pressure to remove these foreign exchange "pegs". There can be no assurance that the current riyal/U.S. dollar peg will be maintained going forward or that the peg will be retained at its current rate. Any de-pegging of the riyal from the U.S. dollar, or its re-pegging at a different rate, could result in a significant fluctuation and revaluation of the riyal relative to the U.S. dollar and, by extension, to other GCC currencies which remain pegged to the U.S. dollar.

There can also be no assurance that the monetary authorities of other GCC countries will maintain their current peg to the U.S. dollar, or that such pegs will be retained at their current rate. Any de-pegging of these other currencies from the U.S. dollar or their re-pegging at a different rate could result in significant fluctuation and revaluation of such currencies relative to the U.S. dollar and, by extension, to the riyal.

There can be no assurance that the Group's risk management policies and procedures related to management of currency fluctuations, including any fluctuations caused by any de-pegging or re-pegging, will prove successful at all times. De-pegging or re-pegging of the riyal to the U.S. dollar, as well as fluctuations against any other currency, could have a material adverse effect on the Group.

Risks relating to Saudi Arabia

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

While the oil sector contributes a significant portion to the Kingdom's economy, in recent years the Government has invested heavily in diversifying the Kingdom's economy to reduce its reliance on oil revenues. The Government has implemented an ongoing series of five-year development plans in order to achieve several socio-economic objectives, one of which is the diversification of the Kingdom's economic base and sources of national income. The Government has also announced various measures aimed at, among other things, achieving increased diversification of the Kingdom's economy, including the Saudi Vision 2030 and the National Transformation Program 2020.

Some of the measures envisaged include the greater participation of Saudi citizens in the private sector, a decrease in certain subsidies historically available to the fuel and energy sectors, as well as the imposition of new taxes and administrative fees. The implementation of these and other similar measures may be a lengthy and complex process, and there can be no assurance that these measures will not have unexpected or undesirable consequences in Saudi Arabia, including an adverse effect on the macroeconomic environment in the Kingdom, which could, in turn, have a material adverse effect on the Group.

In addition, in light of Saudi Arabia's growing population, one of the key issues that the Government is seeking to address is the accommodation of Saudi nationals in the job market, in particular in the private sector. The Government has, over the past few years, increased expenditure on education and training, and has introduced various initiatives to educate and motivate young Saudi nationals to join the workforce. While this has resulted in an increasing number of Saudi university graduates entering the job market, there can be no assurance that Saudi Arabia's economy will be able to provide sufficient skilled labour opportunities for Saudi nationals holding higher education degrees. As a result, Saudi Arabia may face increased unemployment rates for Saudi nationals, which could negatively affect Saudi Arabia's economy.

Investing in securities involving emerging markets generally involves a higher degree of risk

Investors in emerging markets, such as Saudi Arabia, should be aware that these markets are subject to greater risks than more developed markets, including, but not limited to, higher volatility, limited liquidity and changes in the political and economic environment. In addition, there can be no assurance that the market for securities bearing emerging market risk, such as any Certificates issued under the Programme, will not be affected negatively by events elsewhere, especially in the emerging markets.

Specific risks in Saudi Arabia and the MENA region generally that could have a material adverse effect on the Group's business include, without limitation, the following:

- political, economic or social instability;
- external acts of warfare, civil clashes or other hostilities or conflict;
- domestic unrest or violence;
- increases in inflation and the cost of living;
- changing tax regimes and tax laws, including the raising of the current rate of Saudi VAT from 5 per cent. and the imposition of other taxes in tax-free jurisdictions or the increase of taxes in low-tax jurisdictions;
- government interventions and protectionism;
- potential adverse changes in laws and regulatory practices, including legal structures and tax laws;
- difficulties in staffing and managing operations;
- legal systems which could make it difficult for the Group to enforce its intellectual property and contractual rights;
- restrictions on the right to convert or repatriate currency or export assets;
- greater risk of uncollectible accounts and longer collection cycles; and
- logistical and communications challenges.

Accordingly, prospective investors should exercise particular care in evaluating the risks involved and must determine for themselves whether, in light of those risks, an investment in any Certificates is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risk involved.

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

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

Any sustained market and economic downturn or geopolitical uncertainties in the United States, China or any of Saudi Arabia's other key trading partners may exacerbate the risks relating to Saudi Arabia's trade with those countries. If an economic downturn occurs or continues in the United States, China or any of Saudi Arabia's other key trading partners, this may have a negative impact on Saudi Arabia's foreign trade and balance of payments, which could have a material adverse effect on Saudi Arabia's economic and financial condition.

Any material deterioration in Saudi Arabia's economic and financial condition would be likely to also negatively affect its banking sector and could have a material adverse effect on the Group. See "*Risks relating to the Group—The Group's operations and assets are principally located in Saudi Arabia and, accordingly, the Group is exposed to general economic conditions in Saudi Arabia*" above.

Saudi Arabia's banking regulatory environment is continually evolving and may change, which could have a material adverse effect on the Group

The Group is subject to regulatory supervision by SAMA, which is the body charged with regulating the banking and financial sector in Saudi Arabia. SAMA's rules, regulations and guidelines may from time to time be amended in accordance with economic and political developments in Saudi Arabia. SAMA operates to a standard expected of international regulators and follows the recommendations of the Basel Committee. The Group's business could be directly or indirectly affected by changes in Saudi Arabia's banking regulatory policies, laws and regulations, such as those affecting the extent to which the Group can engage in specific businesses, as well as changes in other governmental policies. The laws and regulations governing the banking and financial sector are subject to future changes and the Group cannot provide any assurance that such changes will not adversely affect its business, financial condition or results of operations, nor can the Group provide any assurance that it will be able to adapt to all such changes on a timely basis. Failure to comply with the rules, regulations and guidelines of SAMA could result in significant financial penalties, a requirement to cease carrying on one or more particular businesses currently undertaken and significant reputational damage which could lead to a material loss of customers.

As a publicly listed company, Riyad Bank is also subject to the regulations of the CMA, which include certain requirements related to disclosure, governance and other continuing obligations. Changes in, or violation of, any such requirements may adversely affect the Bank's business, financial position, results of operations and prospects.

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

Companies in Saudi Arabia are in general required by the Ministry of Labour to ensure that a certain percentage of their staff are Saudi nationals. The Group aims to recruit, train and retain Saudi nationals to comply with the relevant regulations, although, in common with other corporate entities in Saudi Arabia, the Group experiences competition for, and may occasionally find it difficult to recruit and retain, qualified Saudi nationals. Failing to achieve the stipulated percentage could cause the Group to be questioned by the Ministry of Labour for non-compliance with these requirements which could, in turn, have an adverse effect on the Group's business and reputation. See "*Management and employees—Employees*".

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

The legal system in Saudi Arabia continues to develop and this, and certain aspects of the laws of Saudi Arabia, may create an uncertain environment for investment and business activity

The courts and adjudicatory bodies in Saudi Arabia have wide discretion as to how laws, regulations and principles of Islamic law (*Shari'a*) are applied to a particular set of circumstances. There is no doctrine of binding precedent in the courts of Saudi Arabia, decisions of various courts and judicial committees of Saudi Arabia and Royal Decrees, ministerial decisions and resolutions, departmental circulars and other pronouncements of official bodies of Saudi Arabia which have the force of law are not generally or consistently indexed and collected in a central place or made publicly available. Accordingly, it is uncertain exactly how and to what extent any Certificate, the Conditions and/or the Transaction Documents would be enforced by a Saudi Arabian court or any other Saudi Arabian adjudicatory body, should circumstances dictate that they have jurisdiction. Further, in some circumstances, it may not be possible to obtain the legal remedies provided under the laws and regulations of Saudi Arabia in a timely manner. As a result of these and other factors, the outcome of any legal disputes in Saudi Arabia may be uncertain.

Under Islamic law (*Shari'a*) as applied in Saudi Arabia, a loan that generates a benefit to the lender is considered "*riba*". As such, an obligation to pay interest or a sum in the nature of interest (whether described as "commission", "profit" or another synonym), including any form of benefits, is not enforceable. Prospective Certificateholders should note that the provisions of the Transaction Documents relating to the payment of commission or profit (whether described as "commission", "profit" or another synonym) and possibly any arrangement, commitment, agency, administration or upfront fees, may not be enforceable under the laws of Saudi Arabia and therefore prospective Certificateholders may not be able to enforce their right to receive such amounts under the Transaction Documents.

A court or judicial committee in Saudi Arabia is likely to refuse to give a judgment in respect of principal amounts to the payee of such amounts in an amount greater than the principal sums found by such court or judicial committee to be due and payable less the amount of sums in the nature of interest (however described) already paid by the payer to the payee. Any amounts previously paid to the Certificateholders on the Certificates and/or pursuant to the Transaction Documents in respect of sums in the nature of commission or profit may therefore reduce the amount receivable by the Certificateholders in relation to payments of principal.

The statistical data contained in this Offering Circular should be treated with caution by prospective investors

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

Risks relating to the Assets

Ownership of the Assets

In order to comply with the requirements of *Shariah*, an interest in the Assets comprised within the relevant Portfolio will pass to the Trustee under the relevant Purchase Agreement. The Trustee will declare a trust in respect of such Portfolio and the other Trust Assets in favour of the Certificateholders of the relevant Series pursuant to the relevant Declaration of Trust. Accordingly, Certificateholders will, through the ownership interest of the Trustee, have an undivided ownership interest in the relevant Portfolio unless the transfer of the Portfolio is prohibited by, or ineffective under, any applicable law (see "-*Transfer of the Assets*").

No investigation or enquiry will be made, and no due diligence will be conducted, in respect of any Assets comprised within any Portfolio. Riyad Bank will select such Assets and the Certificateholders, the Trustee and the Delegate will have no ability to influence such selection. Only limited representations will be obtained from Riyad Bank in respect of the Assets of any Series. In particular, the precise terms of the Assets or the nature of the assets leased, sold or held will not be known (including whether there are any restrictions on transfer or any further obligations required to be performed by Riyad Bank to give effect to the transfer of the Assets). No steps will be taken to perfect the transfer of the ownership interest (including registration) in the Assets with any relevant regulatory authority in Saudi Arabia or otherwise give notice to any lessee or obligor in respect thereof.

In addition, if and to the extent that a third party is able to establish a direct claim against the Trustee, the Delegate or any Certificateholders on the basis of any ownership interest in the Assets of any Series, Riyad

Bank has agreed in the relevant Declaration of Trust to indemnify the Trustee, the Delegate and the Certificateholders against any such liabilities. In the event that Riyad Bank is unable to meet any such claims, then the Certificateholders may suffer losses in excess of the original face amount invested.

Transfer of the Assets

No investigation has been or will be made as to whether any Assets may be transferred as a matter of the law governing the contracts (if any) underlying such Assets, the law of the jurisdiction where such assets are located or any other relevant law. No investigation will be made to determine if the relevant Purchase Agreement will have the effect of transferring an interest in the Assets of the relevant Series of Certificates.

However, Riyad Bank has covenanted in the Purchase Undertaking that, to the extent that any sale and purchase or transfer and assignment of any of the Assets is not effective in any jurisdiction for any reason, it will make restitution in respect of those Assets, will fully accept all or any ownership interest the Trustee may have in the relevant Assets and, if such ownership interest is disputed or challenged, will fully indemnify the Trustee for the purpose of redemption in full or in part, as the case may be, of the relevant Series of Certificates and, accordingly, the amount payable under such indemnity will equal the relevant Exercise Price (see "*Summary of the Principal Transaction Documents–Purchase Undertaking*"). In the event that the Assets are not repurchased by Riyad Bank for any reason, the Delegate (on behalf of the Certificateholders) may, subject to the matters set out in Condition 16 and the terms of the Master Declaration of Trust, seek to enforce, *inter alia*, the provisions of the Purchase Undertaking against Riyad Bank. To the extent that the Delegate obtains an arbitral award or English judgment in its favour, it may seek to enforce that judgment in a Saudi Arabian court (see "*– Risk factors relating to enforcement*").

Risks Relating to the Certificates

Basel III reforms and risk of Tier 2 Certificates absorbing losses

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

There can be no assurance that in the future, SAMA will not amend its interpretation and implementation of the January 13 Annex described above. Further, revisions to the January 13 Annex may be implemented in the Kingdom in a manner that is different from that which is currently envisaged, or regulations may be introduced through the introduction of an Applicable Statutory Loss Absorption Regime (as defined in Condition 12) in the Kingdom. If the regulatory requirements for capital instruments applicable to Riyad Bank are modified in the future, it is possible that authorities could use their powers in such a way as to result in the Tier 2 Certificates absorbing losses in the manner other than as described herein. Furthermore, on or after the date on which the Applicable Statutory Loss Absorption Regime becomes effective, the provisions of Condition 12 will lapse and cease to have any effect, except to the extent such provisions are required by the Applicable Statutory Loss Absorption Regime. If, on or after such date, an event occurs which under the Applicable Statutory Loss Absorption Regime would lead to a determination of non-viability by SAMA, in respect of Riyad Bank, SAMA (or Riyad Bank following instructions from SAMA) may take such action in respect of the Tier 2 Certificates as is required or permitted by such Applicable Statutory Loss Absorption Regime. Accordingly, the operation of any such future legislation or implementation of an Applicable Statutory Loss Absorption Regime may have an adverse effect on the position of Certificateholders.

The Certificateholders' right to receive payment of the principal amount of the Tier 2 Certificates will, and the Periodic Distribution Amounts in respect of Tier 2 Certificates may, be written-down (in whole or in part) upon the occurrence of a Non-Viability Event

If a Non-Viability Event (as defined below) occurs at any time on or after the Issue Date of a Series of Tier 2 Certificates and prior to the date on which the Applicable Statutory Loss Absorption Regime becomes effective in respect of such Series (the "**Effective Date**"), the Tier 2 Certificates will be cancelled, the Certificateholders' rights to the Trust Assets shall automatically be deemed to be irrevocably and unconditionally cancelled in whole if so determined by the Financial Regulator and, except in relation to any Periodic Distribution Amounts accrued and unpaid if and only to the extent that such Periodic Distribution Amounts became due and payable to the Certificateholders prior to the date of the Non-Viability Notice (and provided payment of such amounts are not prohibited by the Financial Regulator or the Capital Regulations at such time), all rights of any Certificateholder to payment of any amounts under or in respect of the Tier 2 Certificates (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, a Dissolution Event as described in Condition 16.2) shall be cancelled and not restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Non-Viability Notice or the Non-Viability Event Write-down Date.

If following the occurrence of a Non-Viability Event, the Financial Regulator determines that a partial Write-down of the Certificates and Trust Assets is required, the face amount of each Certificate and the Trust Assets shall be written-down by the amount so specified in writing by the Financial Regulator, the Tier 2 Certificateholders' rights to the Trust Assets so written-down shall automatically be deemed to be irrevocably and unconditionally cancelled and except in relation to payment of accrued and unpaid Periodic Distribution Amounts if and only to the extent such amounts became due and payable to the Certificateholders prior to the date of the Non-Viability Notice (and provided payment of such amounts are not prohibited by the Financial Regulator or the Capital Regulations at such time), all rights of any Certificateholder for payment of any amounts under or in respect of the proportion of the Tier 2 Certificates so written-down (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, a Dissolution Event as described in Condition 16.2) shall be cancelled and not restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Non-Viability Notice or the Non-Viability Event Write-down Date. Accordingly, the Certificateholders may lose some or the entire amount of their investment in the Tier 2 Certificates.

A "**Non-Viability Event**" means that the Financial Regulator has notified Riyad Bank in writing that it has determined that Riyad Bank is, or will become, Non-Viable without:

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

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

The circumstances triggering a Write-down are unpredictable

The occurrence of a Non-Viability Event is inherently unpredictable and depends on a number of factors, many of which are outside of Riyad Bank's control. The occurrence of a Non-Viability Event is subject to, *inter alia*, a subjective determination by the Financial Regulator. As a result, the Financial Regulator may require a Write-down in circumstances that are beyond the control of Riyad Bank and with which Riyad Bank may not agree.

The exercise (or perceived likelihood of exercise) of any such power by the Financial Regulator or any suggestion of such exercise could materially adversely affect the value of any Tier 2 Certificates and could lead to the Certificateholders losing some or all of their investment in the Tier 2 Certificates.

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

Prospective investors should also be aware that the application of a non-viability loss-absorption feature similar to Condition 12 has not been tested in the Kingdom and therefore uncertainty exists in its application.

An investor in the Tier 2 Certificates assumes an enhanced risk of loss in the event of a Winding Up Proceeding

The obligations of Riyad Bank in respect of any Tier 2 Certificates issued under the Programme will be unsecured and subordinated. Upon the occurrence of a Winding Up Proceeding, and subject to the non-viability provisions contained in Condition 12, the obligations of Riyad Bank in respect of the relevant Tier 2 Certificates in relation to amounts payable in respect of the Tier 2 Certificates will rank subordinate to claims in respect of Senior Obligations and no amount will be paid by Riyad Bank in respect of its obligations under the Transaction Documents in relation to the Tier 2 Certificates until all such Senior Obligations have been paid in full. Unless, therefore, Riyad Bank has assets remaining after making all such payments, no payments will be made in respect of its obligations under the Transaction Documents in relation to the Tier 2 Certificates and any such payments that are made will be made at least *pari passu* with any payments made by Riyad Bank in respect of any other obligations it may have under any Parity Obligations. Consequently, although the Tier 2 Certificates may pay a higher return than comparable instruments relating to unsubordinated obligations, there is an enhanced risk that an investor in Tier 2 Certificates will lose all or some of its investment following the occurrence of a Winding Up Proceeding.

No limitation on incurrence of Senior Obligations or Parity Obligations

There is no restriction on the amount of Senior Obligations or Parity Obligations that Riyad Bank may incur. As described above, the incurrence of any such obligations may reduce the amount recoverable by Tier 2 Certificateholders on any dissolution, winding-up or liquidation of Riyad Bank. Accordingly, on such dissolution, winding-up or liquidation, there may not be sufficient amounts to satisfy the amounts owing to Tier 2 Certificateholders in respect of the obligations of Riyad Bank under the Transaction Documents to which it is a party and this may result in an investor in Tier 2 Certificates losing all or some of its investment.

The Certificates are limited recourse obligations

Certificates to be issued under the Programme are not debt obligations of the Trustee. Instead, the Certificates represent an undivided ownership interest solely in the relevant Trust Assets. Recourse to the Trustee in respect of each Series is limited to the Trust Assets of that Series and proceeds of such Trust Assets are the sole source of payments on the relevant Certificates. Upon the occurrence of a Dissolution Event, the sole rights of each of the Delegate and, through the Delegate, the Certificateholders of the relevant Series will be against Riyad Bank to perform its obligations under the Transaction Documents to which it is a party. Certificateholders will have no recourse to any assets of the Trustee or Riyad Bank in respect of any shortfall in the expected amounts due under the relevant Trust Assets. Riyad Bank is obliged to make certain payments under the Transaction Documents to which it is a party directly to the Trustee, and the Delegate will have direct recourse against Riyad Bank to recover such payments due to the Trustee pursuant to the Transaction Documents to which it is a party. In the absence of default by the Delegate, investors have no direct recourse to Riyad Bank and there is no assurance that the net proceeds of the realisation of any enforcement action with respect to the Trust Assets (which, as described above, will be by way of enforcing Riyad Bank's and the Trustee's respective obligations under the Transaction Documents to which they are a party) will be sufficient to make all payments due in respect of the relevant Certificates. After enforcing or realising the rights in respect of the Trust Assets of a Series (in the manner described above) and distributing the net proceeds of such Trust Assets in accordance with Condition 4.2, the obligations of the Trustee in respect of the Certificates of the relevant Series shall be satisfied and neither the Delegate nor any Certificateholder may take any further steps against the Trustee to recover any further sums in respect of such Certificates and the right to receive any such sums unpaid shall be extinguished. Furthermore, under no circumstances shall the Trustee, the Delegate or any Certificateholder have (i) any right to cause the sale or other disposition of any of the Trust Assets except pursuant to the Transaction Documents or (ii) any other recourse against the Trust Assets except the right to receive distributions derived from the Trust Assets in accordance with the Conditions. The sole right of the Trustee, the Delegate and the Certificateholders against Riyad Bank shall be to enforce the obligation of Riyad Bank to perform its obligations under the Transaction Documents to which it is a party.

In addition, in respect of Tier 2 Certificates only, all claims by the Trustee (or the Delegate acting in the name and on behalf of the Trustee) against Riyad Bank under the Transaction Documents (including, without limitation, any claim in relation to any unsatisfied payment obligation of Riyad Bank under the Transaction Documents) shall be subject to, and shall be superseded by the provisions of Condition 12, irrespective of whether the relevant Non-Viability Event occurs prior to or after the event which is the subject matter of the claim, provided that nothing in the Conditions shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Delegate or the rights and remedies of the Delegate in respect thereof, all of which shall accordingly remain unsubordinated.

Absence of secondary market/limited liquidity

There is no assurance that a secondary market for the Certificates of any Series will develop or, if it does develop, that it will provide the Certificateholders with liquidity of investment or that it will continue for the life of those Certificates. Accordingly, a Certificateholder may not be able to find a buyer to buy its Certificates readily or at prices that will enable the Certificateholder to realise a desired yield. The market value of Certificates may fluctuate and a lack of liquidity, in particular, can have a material adverse effect on the market value of the Certificates. Accordingly, the purchase of Certificates is suitable only for investors who can bear the risks associated with a lack of liquidity in the relevant Certificates and the financial and other risks associated with an investment in the relevant Certificates. An investor in Certificates must be prepared to hold the relevant Certificates for an indefinite period of time or until their maturity. Application has been made for the listing of certain Series to be issued under the Programme on the ISM but there can be no assurance that any such listing will occur or will enhance the liquidity of the Certificates of the relevant Series.

The Certificates may be subject to early redemption

In the event that the amount payable on the Certificates of any Series is required to be increased to include additional amounts in certain circumstances and/or Riyad Bank is required to pay additional amounts pursuant to certain Transaction Documents, in each case, as a result of certain changes affecting taxation in the Relevant Jurisdiction, or, in each case, any political subdivision or any authority thereof or therein having power to tax, the Trustee may (subject to Condition 11.9, including prior written approval of the Financial Regulator if and to the extent required at such time, in respect of Tier 2 Certificates only) redeem all but not some only of the Certificates upon giving notice in accordance with the Terms and Conditions of the relevant Certificates.

In respect of Tier 2 Certificates only, in the event that a Capital Disqualification Event occurs and subject to Condition 11.9, including prior written approval of the Financial Regulator if and to the extent required at such time, the Trustee may, following receipt of an exercise notice from Riyad Bank under the Sale and Substitution Undertaking, redeem all but not some only of the Tier 2 Certificates upon giving notice in accordance with the Terms and Conditions of the relevant Certificates.

If so provided in the applicable Pricing Supplement, a Series may be redeemed early at the option of the Trustee (subject to Condition 11.9, including prior written approval of the Financial Regulator if and to the extent required at such time, in respect of Tier 2 Certificates only).

Any such early redemption feature of any Certificate is likely to limit its market value. During any period when the Trustee may elect to redeem Certificates, or if there is a perception that the Certificates may be so redeemed, the market value of those Certificates generally will not rise substantially above the dissolution amount payable. This also may be true prior to any redemption period. The Trustee may be expected to redeem Certificates when Riyad Bank's cost of borrowing is lower than the profit rate on the Certificates. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective profit rate as high as the profit rate on the Certificates being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider re-investment risk in light of other investments available at that time.

Limited remedies for non-payment when due or enforcement of any other obligations in respect of Tier 2 Certificates

It will only be possible to accelerate payment of any amounts payable by Riyad Bank pursuant to its obligations under the Transaction Documents to which it is a party in relation to amounts payable in respect of the Tier 2 Certificates upon the occurrence of a Winding Up Proceeding of Riyad Bank as described in Condition 16.2. Subject as provided in Condition 16.2, the Trustee or the Delegate in the name and on behalf of the Trustee may then claim or prove in the winding-up, dissolution or liquidation for and on behalf of Certificateholders in respect of the resulting amounts due and payable by Riyad Bank under the Transaction Documents.

Certificateholders may direct the Delegate to bring proceedings against Riyad Bank, other than in respect of any payment obligation it may have under the Transaction Documents, but Riyad Bank will not have any obligation by virtue of the institution of any such proceedings to pay any amount or amounts sooner than such amount(s) would otherwise have been payable under the Transaction Documents. This is the case whether such proceedings are instituted in respect of any default by Riyad Bank in payment or otherwise. The only remedy of Certificateholders on any default by Riyad Bank in payment under any Transaction Document will be to direct the Delegate to bring proceedings in respect of such defaulted payment for Riyad Bank's winding-up, dissolution or liquidation as described in Condition 16.2 and, on such winding-up, dissolution or liquidation, to accelerate payment of any remaining amounts payable by Riyad Bank and prove in the winding-up, dissolution or liquidation in accordance with Condition 16.2.

No remedy other than those described above will be available to any of the Trustee, the Delegate or Certificateholders in respect of the obligations of Riyad Bank under the Transaction Documents to which it is a party in relation to the Tier 2 Certificates, whether for the recovery of amounts owing pursuant to such obligations due to Certificateholders or in respect of any breach by Riyad Bank of any of its obligations under the Transaction Documents in relation to the Tier 2 Certificates, and none of the Trustee, the Delegate or Certificateholders will be able to take any further or other action to enforce, claim or prove for any payment by Riyad Bank in respect of such obligations.

Risk factors relating to enforcement

There are uncertainties around the choice of English law as the governing law of certain Transaction Documents and around enforcing arbitral awards in Saudi Arabia

The Certificates and the Transaction Documents (other than the Master Purchase Agreement, each Supplemental Purchase Contract, each Sale Agreement entered into under the Purchase Undertaking and each Sale Agreement or Transfer Agreement entered into under the Sale and Substitution Undertaking) are expressed to be governed by English law except for Conditions 3.2, 3.3 and 3.4, Clause 8.2(ii) of the Servicing Agency Agreement and Clause 4.2(ii) of the Purchase Undertaking relating to subordination and set-off as set out below, and provide for the resolution of disputes through arbitration in London under the LCIA Arbitration Rules. Riyad Bank is a Saudi Arabian company and is incorporated in and has its operations and the majority of its assets located in Saudi Arabia. Despite this, the courts and judicial committees of Saudi Arabia may not recognise the choice of English law or submission to arbitration. Accordingly, in any proceedings relating to the Certificates in Saudi Arabia, *Shari'a*, as interpreted in Saudi Arabia, may be applied by the relevant court or judicial committee. The courts and judicial committees of Saudi Arabia have the discretion to deny the enforcement of any contractual or other obligations, if, in their opinion, the enforcement thereof would be contrary to the principles of *Shari'a*.

In addition to the above, courts in Saudi Arabia may not enforce a foreign judgment without re-examining the merits of the claim. Moreover, provisions of foreign law which are deemed contrary to public policy, order or morals in Saudi Arabia (including *Shari'a* law and principles), or to any mandatory law of, or applicable in, Saudi Arabia, are unlikely to be enforceable in Saudi Arabia.

A law of the judiciary was issued pursuant to the Royal Decree No. M/78 dated 19 Ramadan 1428H (corresponding to 02/09/2007), which transferred the jurisdiction over commercial disputes from the Board of Grievances (the "**Board of Grievances**") to the Commercial Courts in Saudi Arabia. The Board of Grievances also previously had exclusive jurisdiction to consider the enforcement of arbitral awards; however, with the enactment of the Enforcement Law pursuant to the Royal Decree No. M/53 dated 13 Shaaban 1433H (corresponding to 03/07/2012), this jurisdiction has been transferred to newly-created enforcement courts (the "**Enforcement Courts**") staffed by specialised "enforcement judges". The Enforcement Courts may, at their discretion, enforce all or any part of a foreign arbitral award, subject to certain conditions, which include: (a) the arbitral award does not conflict with public policy in Saudi Arabia; (b) reciprocity in the enforcement of arbitral awards between the courts of Saudi Arabia and the country in which the award was made; (c) the courts of Saudi Arabia not having jurisdiction over the dispute and the award having been issued in accordance with the jurisdictional rules of the country in which such award was made; (d) the respective parties to the dispute having been present, duly represented and able to defend themselves; (e) the award being final in accordance with the rules of the court; and (f) the award not conflicting with any ruling or order issued by a court of competent jurisdiction on the same matter in Saudi Arabia.

No assurance can be given that prospective Certificateholders would be able to meet the requirements of reciprocity of enforcement or that the court would agree to enforce the award even if all requirements are met. In addition, even if such requirements were met, Certificateholders should also be aware that if any terms of the Certificates or the Transaction Documents (including any provisions relating to the payment of profit) were found to be inconsistent with *Shari'a*, they would not be enforced by the Enforcement Courts (see "*–The legal system in Saudi Arabia continues to develop and this, and certain aspects of the laws of Saudi Arabia, may create an uncertain environment for investment and business activity*" above).

Saudi Arabian government authorities and state-owned companies are required to work to select Saudi Arabia as the seat of arbitration at the Saudi Centre of Commercial Arbitration in contracts entered into by them with foreign investors pursuant to the High Order No. 28004 dated 22/5/1440H (corresponding to 25/1/2019) ("**High**

Order 28004"). While the High Order 28004 appears to be advisory in nature and does not place a hard obligation on Saudi Arabian government authorities and state-owned companies to select Saudi Arabia as the seat of arbitration at the Saudi Centre of Commercial Arbitration in all contracts entered by them with foreign investors, Saudi Arabian courts might take the view that the High Order 28004 places a hard obligation on Saudi Arabian government authorities and state-owned companies and render selecting the seat of arbitration outside Saudi Arabia as void. It is noteworthy that the High Order 28004 does not clarify whether it would apply to wholly or partially owned state-owned companies.

There are uncertainties around the choice of the Committee for the Resolution of Securities Disputes to hear certain disputes

Certain of the Transaction Documents are expressed to be governed by Saudi law and provide for the resolution of disputes through proceedings before the Committee for the Resolution of Securities Disputes (the "**CRSD**"). However, whilst the CRSD is responsible for the settlement of disputes arising under the Capital Market Law and its implementing regulations, under Saudi Arabian law, only a court in its application of the law will finally determine the appropriate adjudicating forum for the dispute, notwithstanding the contractual election of the parties to an agreement. There is therefore a risk that other courts or judicial committees will have jurisdiction to hear relevant disputes. Any provision in an agreement that purports to preclude any party from invoking the jurisdiction of a particular Saudi Arabian court or judicial committee where the parties have referred a dispute to any other Saudi Arabian court or judicial committee may not be enforceable.

The interpretation of the compliance of the Transaction Documents with Shari'a principles may differ amongst Saudi courts and judicial committees

The Master Purchase Agreement, each Supplemental Purchase Agreement and each Sale or Transfer Agreement entered into under the Purchase Undertaking or the Sale and Substitution Undertaking, as the case may be (together the "**Saudi Law Transaction Documents**"), will be governed by, and will be construed in accordance with, the laws of Saudi Arabia. Prospective Certificateholders should note that the various courts and judicial committees of Saudi Arabia applying Saudi law, and, in particular, the relevant principles of Islamic law are generally construed and applied pursuant to the teachings of the Hanbali school of jurisprudence, which may interpret or enforce, or reinterpret, any Saudi Law Transaction Document other than in accordance with its terms. There are majority and minority views within the Hanbali school of jurisprudence either of which may be applied in any particular case. In this regard, the courts and judicial committees of Saudi Arabia may decline to enforce any contractual or other obligations (including any provisions relating to the payment of profit) if it is their view that the enforcement thereof would be contrary to principles of *Shari'a*.

Prospective Certificateholders should note that to the best of the Trustee's and Riyad Bank's knowledge, no securities of a similar nature to the Certificates have previously been the subject of adjudicatory interpretation or enforcement in Saudi Arabia. Accordingly, it is uncertain exactly how and to what extent the Transaction Documents to which Riyad Bank is a party (or any of them), would be enforced by the CRSD and the Appeal Panel or any other adjudicatory authority in Saudi Arabia.

Prospective Certificateholders should note that different *Shari'a* advisers and courts and judicial committees in Saudi Arabia may form different opinions on identical issues and therefore prospective Certificateholders should consult their own legal and *Shari'a* advisers to receive an opinion, as to the compliance or otherwise of the Certificates and the Transaction Documents with *Shari'a* principles (see "*Additional risk factors–Shari'a rules*" below). Prospective Certificateholders should also note that although the Riyad Bank Shari'ah Committee has approved the transaction structure relating to the Certificates (as described in this Offering Circular) and each of the Shari'a Supervisory Committee of Standard Chartered Bank and J.P. Morgan Securities plc's *Shari'a* advisers have confirmed that the Transaction Documents are in compliance with *Shari'a* principles, such approvals and confirmations would not bind a court or judicial committee in Saudi Arabia, including in the context of any insolvency or bankruptcy proceedings relating to Riyad Bank, and any court or judicial committee in Saudi Arabia will have the discretion to make its own determination about whether the Transaction Documents comply with the laws of Saudi Arabia and *Shari'a* principles and therefore are enforceable in Saudi Arabia.

Courts and judicial committees in Saudi Arabia may not give effect to unilateral promises

Under Islamic law there are different opinions amongst scholars with respect to the enforceability of a unilateral promise which can be divided into three distinct positions: (i) a unilateral promise will be enforceable in all circumstances; (ii) a unilateral promise will not be enforceable in any circumstances; and (iii) a unilateral promise will be enforceable where a breach would cause harm to the promisee. In addition, the absence of both a doctrine of binding precedent in Saudi Arabia and a public centralised index of previous judgments of courts and judicial committees allow judges notable interpretative discretion and thus render it difficult to predict which of the above positions would be followed by a court or judicial committee in Saudi Arabia. As a result, such a unilateral promise may not create an obligation which would be enforceable before the courts and judicial committees of Saudi Arabia. The Purchase Undertaking is a unilateral promise from Riyad Bank to the Trustee and the Delegate. Accordingly, prospective Certificateholders should be aware that its terms may not be enforceable before the courts and judicial committees of Saudi Arabia and, as a consequence, Certificateholders may not receive the relevant Dissolution Amounts due to them under the Certificates.

There are concerns as to the effectiveness under Saudi Arabian law of any transfer of an interest in an asset in Saudi Arabia, or on the return of investment of any activity in Saudi Arabia, to a Saudi Arabian company on behalf of foreign nationals unless a corporate presence is formed in Saudi Arabia and the relevant licensing requirements have been met

The Foreign Investment Law issued under Royal Decree No. M/1 dated 5/1/1421H (corresponding to 10/4/2000) and the Anti-Cover Up Regulations issued in the Official Gazette on 28/5/1425H (corresponding to 16/7/2004) prohibit Saudi Arabian companies from doing business in Saudi Arabia on behalf of foreign nationals unless a corporate presence is formed in Saudi Arabia and the relevant licensing requirements have been met. The Trustee and Riyad Bank could be interpreted as contravening this prohibition by entering into the Servicing Agency Agreement and the other Transaction Documents to which they are each a party. Moreover, under the Saudi Arabian Foreign Ownership and Investment in Real Estate Regulations issued under Royal Decree No. M/15 dated 17/4/1421H (corresponding to 19/7/2000), any transfer of an interest in real estate to non-Saudi persons under any of the Transaction Documents, shall be void and not effective under Saudi Arabian law unless such non-Saudi persons establish a corporate presence in Saudi Arabia and obtain the relevant licences.

On the basis of the foregoing, prospective Certificateholders should note that there is uncertainty as to the effectiveness under Saudi Arabian law of any transfer of an interest in an asset in Saudi Arabia pursuant to the Transaction Documents relating to a Series, or on the return of investment of any activity in Saudi Arabia, absent compliance with the matters specified above. As a result, if Riyad Bank fails to comply with its obligations under the Transaction Documents, a Saudi Arabian court or judicial or administrative tribunal or government authority may characterise the transactions contemplated by the Transaction Documents as an unlawful investment which is void as a result of non-compliance with any of the matters specified above. If that is the case, a Saudi Arabian court or judicial or administrative tribunal is likely to require that Riyad Bank return to the Trustee the relevant Issue Proceeds less any Portfolio Income Revenues and/or Portfolio Principal Revenues already paid in respect of the relevant Series. It is uncertain whether the parties will be entitled to any damages.

Courts and judicial committees in Saudi Arabia may not give effect to the Riyad Bank Events

Prospective Certificateholders should note that the courts and judicial committees of Saudi Arabia may not give effect to any of the Riyad Bank Events (as set out in the Purchase Undertaking) other than those Riyad Bank Events relating to the non-payment of amounts due under the Transaction Documents.

Courts and judicial committees in Saudi Arabia may not give effect to the concept of restitution contained in the Purchase Undertaking

Prospective Certificateholders should note that the courts and judicial committees of Saudi Arabia may not give effect to the obligation of Riyad Bank under the Purchase Undertaking to make payment by way of restitution in the case of an Initial Defective Sale (as defined in the Purchase Undertaking) to the Trustee or the Delegate (as applicable) where it is unable to realise in full, or does not actually receive in full, the relevant Exercise Price which is expressed to be due and payable under the Purchase Undertaking.

Courts and judicial committees in Saudi Arabia may not give effect to the penalties and certain types of indemnities

Prospective Certificateholders should note that should any provision of the Transaction Documents be construed by a court or judicial committee in Saudi Arabia to be an agreement to pay a penalty rather than a genuine estimate of loss incurred, such provision would not be enforced in Saudi Arabia. Further, any indemnity provided by Riyad Bank pursuant to the Transaction Documents or in relation to any Series may not be enforceable under the laws and regulations of Saudi Arabia in certain circumstances.

Compliance with bankruptcy law in Saudi Arabia may affect Riyad Bank's ability to perform its obligations under the Transaction Documents to which it is a party

A new bankruptcy law promulgated pursuant to Royal Decree No. M/50 dated 28/05/1439H (corresponding to 13/02/2018) (the "**Bankruptcy Law**") created general bankruptcy procedures.

If Riyad Bank's insolvency satisfied the eligibility conditions for such bankruptcy procedures, this could adversely affect Riyad Bank's ability to perform its obligations under the Transaction Documents to which it is a party and, in turn, affect the Trustee's ability to perform its obligations in respect of the Certificates. There is little precedent to predict how claims by or on behalf of the Certificateholders and/or the Delegate would be resolved in the event of Riyad Bank satisfying the eligibility conditions of any such bankruptcy procedures and, accordingly, it is uncertain exactly how and to what extent the Transaction Documents would be enforced by a Saudi Arabian adjudicatory body in that situation and, therefore, there can be no assurance that Certificateholders will receive repayment of their claims in full or at all in these circumstances. In addition, there is a material likelihood that a Saudi Arabian adjudicatory body could consider void a contractual provision that seeks to terminate a contract in the event of a preventative settlement or financial restructuring process being instigated. This is based on article 23 of the Bankruptcy Law, which states that contracts should continue during preventative settlement or financial restructuring processes and any condition to the contrary is null and void. It is open to a contractual party to apply for its contract to be terminated, pursuant to article 24 of the Bankruptcy Law, if the party undergoing preventative settlement fails to comply with its obligations in the period after the commencement of preventative settlement.

A court may not grant an order for specific performance

In the event that Riyad Bank fails to perform its obligations under any Transaction Document to which it is a party, the potential remedies available to the Trustee and the Delegate include (i) obtaining an order for specific performance of Riyad Bank's obligations, or (ii) a claim for damages.

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

The terms of the Declarations of Trust may not be enforceable in Saudi Arabia

The laws of Saudi Arabia do not recognise the concept of a trust or beneficial interests. Accordingly, there is no certainty that the terms of the Master Declaration of Trust and any Supplemental Declaration of Trust (each of which will be governed by English law) would be enforced by the courts of Saudi Arabia and, as such, there can be no assurance that the obligations of the Trustee and/or the Delegate under the Master Declaration of Trust and any Supplemental Declaration of Trust to act on behalf of the Certificateholders in accordance with their instructions (given in accordance with the Conditions of the Certificates) are enforceable as a matter of contract under the laws of Saudi Arabia or that the courts of Saudi Arabia would recognise any claim of the Delegate on behalf of Certificateholders under the Transaction Documents pursuant to the Master Declaration of Trust.

No assurances can be given as to change of law after the date of this Offering Circular

The structure of each issue of Certificates under the Programme is based on English law, Cayman Islands law, the laws of Saudi Arabia and administrative practices in effect as at the date of this Offering Circular. No assurance can be given as to the impact of any possible change to, or interpretation of, English, Cayman Islands or Saudi law or administrative practices in such jurisdiction after the date of this Offering Circular, nor can any assurance be given as to whether any such change could adversely affect the ability of the Trustee to make payments under the Certificates or of Riyad Bank to comply with its obligations under the Transaction Documents to which it is a party.

Additional risk factors

Emerging Markets

Investors in emerging markets should be aware that these markets are subject to greater risks than more developed markets, including, in some cases, significant legal, economic and political risks. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risk involved.

Reliance on Euroclear and Clearstream, Luxembourg procedures

The Certificates of each Tranche will be represented on issue by a Global Certificate that will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in each Global Certificate, investors will not be entitled to receive Certificates in definitive form. Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the ownership interests in Global Certificates. While the Certificates of any Series are represented by a Global Certificate, investors will be able to trade their ownership interests only through Euroclear and Clearstream, Luxembourg and their respective participants.

While the Certificates of any Tranche are represented by a Global Certificate, the Trustee will discharge its payment obligations under the Certificates by making payments through the relevant clearing systems. A holder of an ownership interest in a Global Certificate must rely on the procedures of the relevant clearing system and its participants to receive payments under the relevant Certificates. The Trustee has no responsibility or liability for the records relating to, or payments made in respect of, ownership interests in any Global Certificate.

Holders of ownership interests in a Global Certificate will not have a direct right to vote in respect of the relevant Certificates. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

Shari'a rules

The Riyad Bank Shari'ah Committee has approved the transaction structure relating to the Certificates (as described in this Offering Circular) and the Shari'a Supervisory Committee of Standard Chartered Bank and J.P. Morgan Securities plc's *Shari'a* advisers have confirmed that the Transaction Documents are, in their view, *Shari'a* compliant. However, there can be no assurance that the transaction structure, Transaction Documents or any issue and trading of any Certificates will be deemed to be *Shari'a* compliant by any other *Shari'a* board or *Shari'a* scholars or by any court or adjudicatory authority in Saudi Arabia. None of the Trustee, Riyad Bank, the Delegate, the Agents, the Arrangers or the Dealers makes any representation as to the *Shari'a* compliance of any Series and potential investors are reminded that, as with any *Shari'a* views, differences in opinion are possible. Potential investors should obtain their own independent *Shari'a* advice as to the compliance of the Transaction Documents and the issue and trading of any Series with their individual standards of compliance with *Shari'a* principles. Questions as to the *Shari'a* permissibility of the Transaction Documents or the issue and the trading of any Series may limit the liquidity and adversely affect the market value of the Certificates.

In addition, prospective investors are reminded that the enforcement of any obligations of any of the parties would, if in dispute, be the subject of court or judicial committee proceedings under English or Saudi law. In such circumstances, the judge will apply the relevant law of the Transaction Document in determining the obligation of the parties. See also "*The interpretation of the compliance of the Transaction Documents with Shari'a principles may differ amongst Saudi courts and judicial committees*".

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Certificates. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Certificates. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by its assigning rating agency at any time.

In general, European (including UK) regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU (or the UK) and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU and non-UK credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered or UK-registered credit rating agency or the relevant non-EU and non-UK rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). Certain information with respect to the credit rating agencies and ratings will be disclosed in the applicable Pricing Supplement. The list of registered and certified rating agencies published by ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and publication of an updated ESMA list.

Certificates which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade

In relation to any issue of Certificates which have a denomination consisting of the minimum Specified Denomination plus a higher integral multiple of another smaller amount, it is possible that the Certificates may be traded in amounts in excess of such minimum Specified Denomination that are not integral multiples of such minimum Specified Denomination. In such a case, a Certificateholder who, as a result of trading such amounts, holds a face amount of less than the minimum Specified Denomination would need to purchase an additional amount of Certificates such that it holds an amount equal to at least the minimum Specified Denomination to be able to trade such Certificates. Certificateholders should be aware that Certificates which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

If a Certificateholder holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time such Certificateholder may not receive a definitive Certificate in respect of such holding (should definitive Certificates be printed) and would need to purchase a face amount of Certificates such that its holding amounts to at least a Specified Denomination in order to be eligible to receive a definitive Certificate.

If definitive Certificates are issued, holders should be aware that definitive Certificates which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Consents to variation of Transaction Documents and other matters

The Conditions of the Certificates contain provisions for calling meetings of Certificateholders to consider and vote upon matters affecting their interests generally, or to pass resolutions in writing or through the use of electronic consents. These provisions permit defined majorities to bind all Certificateholders, including Certificateholders who did not attend and vote at the relevant meeting or, as the case may be, did not sign the written resolution or give their consent electronically, and including those Certificateholders who voted in a manner contrary to the majority.

The Master Declaration of Trust contains provisions permitting the Delegate from time to time and at any time without any consent or sanction of the Certificateholders to make any modification to the Master Declaration of Trust if, in the opinion of the Delegate, such modification (a) is of a formal, minor or technical nature, (b) is made to correct a manifest error or (c) is not materially prejudicial to the interests of the relevant Certificateholders and is other than in respect of a Reserved Matter (as defined in the Master Declaration of Trust). Any such modification shall as soon as practicable thereafter be notified to the relevant Certificateholders and shall in any event be binding upon the relevant Certificateholders.

In addition, the Trustee or Riyad Bank, as the case may be, may vary the Conditions to ensure the proper operation of a Successor Rate or Alternative Rate to be used in place of LIBOR or any other Benchmark, without any requirement for consent or approval of Certificateholders (see "- *Discontinuation of LIBOR or other Benchmarks*").

Exchange rate risks and exchange controls

The Trustee will make all payments on the Certificates in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls which could adversely affect an applicable exchange rate.

The Trustee does not have any control over the factors that generally affect these risks, such as economic, financial and political events and the supply and demand for applicable currencies. In recent years, exchange rates between certain currencies have been volatile and volatility between such currencies or with other currencies may be expected in the future. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (i) the Investor's Currency-equivalent yield on the Certificates, (ii) the Investor's Currency equivalent value of the principal payable on the Certificates and (iii) the Investor's Currency equivalent market value of the Certificates.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate, as well as the availability of a specified foreign currency at the time of any payment of any Periodic Distribution Amount or Dissolution Amount on a Certificate. As a result, investors may receive less amounts under the Certificates than expected, or no such amounts. Even if there are no actual exchange controls, it is possible that the Specified Currency for any particular Certificate may not be available at such Certificate's maturity.

Certificates referencing or linked to benchmarks

Reference rates and indices, including periodic distribution rate benchmarks, such as the London Interbank Offered Rate ("**LIBOR**"), which are used to determine the amounts payable under financial instruments or the value of such financial instruments ("**Benchmarks**"), have, in recent years, been the subject of political and regulatory scrutiny as to how they are created and operated. This has resulted in regulatory reform and changes to existing Benchmarks, with further changes anticipated. As an example of such benchmark reforms, on 27 July 2017, the UK Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 and therefore the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. Separate workstreams are also underway in Europe to reform EURIBOR using a hybrid methodology and to provide a fallback by reference to a euro risk-free rate (based on a euro overnight risk-free rate as adjusted by a methodology to create a term rate). On 13 September 2018, the working group on euro risk-free rates recommended Euro Short-term Rate ("**€STR**") as the new risk free rate. €STR was published by the European Central Bank for the first time on 2 October 2019. In addition, on 21 January 2019, the euro risk free-rate working group published a set of guiding principles and high level recommendations for fallback provisions in, amongst other things, new euro denominated cash products (including bonds). The guiding principles indicate, among other things, that continuing to reference EURIBOR in relevant contracts (without robust fallback provisions) may increase the risk to the euro area financial system. These reforms and changes may cause a Benchmark to perform differently than it has done in the past or to be discontinued. Any change in the performance of a Benchmark or its discontinuation, could have a material adverse effect on any Certificates referencing or linked to such Benchmark.

Discontinuation of LIBOR or other Benchmarks

Where Screen Rate Determination is specified as the manner in which the Rate in respect of Floating Rate Certificates is to be determined, the Conditions provide that the Rate shall be determined by reference to the Relevant Screen Page (or its successor or replacement). If a statement is made by the supervisor of the Original Reference Rate that the Original Reference Rate is no longer representative of its relevant underlying market and a Successor Rate or Alternative Rate is determined, Screen Rate Determination will not apply. In circumstances where such Original Reference Rate is discontinued, neither the Relevant Screen Page, nor any successor or replacement may be available.

Where the Relevant Screen Page is not available, and no successor or replacement for the Relevant Screen Page is available, the Conditions provide for the Rate to be determined by the Calculation Agent by reference to quotations from banks communicated to the Calculation Agent.

Where such quotations are not available (as may be the case if the relevant banks are not submitting rates for the determination of such Original Reference Rate), the Rate may ultimately revert to the Rate applicable as at the last preceding Periodic Distribution Determination Date before the Original Reference Rate was discontinued. Uncertainty as to the continuation of the Original Reference Rate, the availability of quotes from reference banks, and the rate that would be applicable if the Original Reference Rate is discontinued may adversely affect the value of, and return on, the Floating Rate Certificates.

Benchmark Events include (amongst other events) (i) permanent discontinuation of an Original Reference Rate and (ii) a statement from the supervisor of the Original Reference Rate that the Original Reference Rate is no longer representative of its relevant underlying market. If a Benchmark Event occurs, the Trustee or Riyad Bank, as the case may be, shall use its reasonable endeavours to appoint an Independent Adviser. After consulting with the Independent Adviser, the Trustee and Riyad Bank (as applicable) shall endeavour to determine a Successor Rate or Alternative Rate to be used in place of the Original Reference Rate, despite the continued availability of the Original Reference Rate in the case of (ii) above. The use of any such Successor Rate or Alternative Rate to determine the Rate is likely to result in Certificates initially linked to or referencing the Original Reference Rate performing differently (which may include payment of a lower profit rate) than they would do if the Original Reference Rate were to continue to (in the case of (i) above) apply in its current form or (in the case of (ii) above) be referenced. In addition, the market (if any) for Certificates linked to any such Successor Rate or Alternative Rate may be less liquid than the market for Certificates linked to the Original Reference Rate. Prospective investors should note that an Independent Adviser appointed pursuant to the Conditions shall, when acting in good faith (and in the absence of wilful default or fraud), have no liability whatsoever to the Trustee, Riyad Bank, the Delegate, the Agents, or the Certificateholders for any determination made by it or for any advice given to the Trustee or Riyad Bank, as the case may be, in connection with any determination made by the Trustee or Riyad Bank, as the case may be, pursuant to the Conditions.

Furthermore, if a Successor Rate or Alternative Rate for the Original Reference Rate is determined by the Trustee or Riyad Bank, as the case may be, the Conditions provide that the Trustee may vary the Conditions, as necessary to ensure the proper operation of such Successor Rate or Alternative Rate, without any requirement for consent or approval of the Certificateholders.

If a Successor Rate or Alternative Rate is determined by the Trustee or Riyad Bank, the Conditions also provide that an Adjustment Spread will be determined by the Trustee or Riyad Bank, as the case may be, to be applied to such Successor Rate or Alternative Rate.

The Adjustment Spread is (i) the spread, formula or methodology which is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body (which may include a relevant central bank, supervisory authority or group of central banks/supervisory authorities), (ii) if no such recommendation has been made, or in the case of an Alternative Rate, the spread, formula or methodology which the Trustee or Riyad Bank, as the case may be, following consultation with the Independent Adviser determines is customarily applied to the relevant Successor Rate or the Alternative Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Original Reference Rate, or (iii) if the Trustee or Riyad Bank, as the case may be, following consultation with the Independent Adviser determines that no such spread is customarily applied, the spread, formula or methodology which the Trustee or Riyad Bank, as the case may be, following consultation with the Independent Adviser determines and which is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate, as the case may be.

Accordingly, the application of an Adjustment Spread may result in the Certificates performing differently (which may include payment of a lower profit rate) than they would do if the Original Reference Rate were to continue to apply in its current form.

The Trustee or Riyad Bank, as the case may be, may be unable to appoint an Independent Adviser or may not be able to determine a Successor Rate or Alternative Rate in accordance with the Conditions.

Where the Trustee or Riyad Bank, as the case may be, is unable to appoint an Independent Adviser in a timely manner, or is unable to determine a Successor Rate or Alternative Rate before the next Periodic Distribution Determination Date, the Rate for the next succeeding Return Accumulation Period will be the Rate applicable as at the last preceding Periodic Distribution Determination Date before the occurrence of the Benchmark Event, or, where the Benchmark Event occurs before the first Periodic Distribution Determination Date, the Rate will be the initial Rate.

Where the Trustee or Riyad Bank, as the case may be, has been unable to appoint an Independent Adviser or, has failed, to determine a Successor Rate or Alternative Rate in respect of any given Return Accumulation Period, it will continue to attempt to appoint an Independent Adviser in a timely manner before the next succeeding Periodic Distribution Determination Date and/or to determine a Successor Rate or Alternative Rate to apply the next succeeding and any subsequent Return Accumulation Periods, as necessary.

Applying the initial Rate, or the Rate applicable as at the last preceding Periodic Distribution Determination Date before the occurrence of the Benchmark Event is likely to result in the Certificates linked to or referencing the relevant benchmark performing differently (which may include payment of a lower profit rate) than they would do if the relevant benchmark were to continue to apply, or if a Successor Rate or Alternative Rate could be determined.

If the Trustee or Riyad Bank, as the case may be, is unable to appoint an Independent Adviser, or fails to determine a Successor Rate or Alternative Rate for the life of the relevant Certificates, or if a Successor Rate or Alternative Rate is not adopted because it could reasonably be expected to prejudice the qualification of the Tier 2 Certificates as Tier 2 Capital, the initial Rate, or the Rate applicable as at the last preceding Periodic Distribution Determination Date before the occurrence of the Benchmark Event, will continue to apply to maturity. This will result in the Floating Rate Certificates, in effect, becoming fixed rate Certificates.

Where ISDA Determination is specified as the manner in which the Rate in respect of Floating Rate Certificates is to be determined, the Conditions provide that the Rate in respect of the Certificates shall be determined by reference to the relevant Floating Rate Option in the 2006 ISDA Definitions. If a statement is made by the supervisor of the Original Reference Rate that the Original Reference Rate is no longer representative of its relevant underlying market and a Successor Rate or Alternative Rate is determined, ISDA Determination will not apply. Where the Floating Rate Option specified is an "IBOR" Floating Rate Option, the Rate may be determined by reference to the relevant screen rate or the rate determined on the basis of quotations from certain banks. If the relevant IBOR is permanently discontinued and the relevant screen rate or quotations from banks (as applicable) are not available, the operation of these provisions may lead to uncertainty as to the Rate that would be applicable, and may, adversely affect the value of, and profit on, the Floating Rate Certificates.

Risk factors relating to taxation

Taxation risks on payments

Payments made by Riyad Bank to the Trustee under, or pursuant to, the Servicing Agency Agreement, the Purchase Undertaking and/or the Sale and Substitution Undertaking are, and payments by the Trustee in respect of the Certificates could become, subject to taxation in Saudi Arabia. The Servicing Agency Agreement requires the Servicing Agent, each of the Purchase Undertaking and the Sale and Substitution Undertaking requires Riyad Bank, and the Master Declaration of Trust requires Riyad Bank to pay additional amounts in the event that any withholding or deduction is required by applicable law to be made in respect of payments made by it to the Trustee which are intended to fund Periodic Distribution Amounts and Dissolution Amounts. Condition 13 provides that the Trustee is required to pay additional amounts in respect of any such withholding or deduction imposed by Cayman Islands law in certain circumstances. In the event that the Trustee fails to pay any such additional amounts in respect of any such withholding or deduction on payments due in respect of the Certificates to Certificateholders, Riyad Bank has unconditionally and irrevocably undertaken (irrespective of the payment of any fee), as a continuing obligation, to pay to the Trustee (for the benefit of the Certificateholders) an amount equal to the liabilities of the Trustee in respect of any and all additional amounts required to be paid in respect of the Certificates pursuant to Condition 13 in respect of any withholding or deduction in respect of any tax as set out in that Condition.

Risks relating to Certificates denominated in Renminbi

A description of risks which may be relevant to an investor in Certificates denominated in Renminbi ("**Renminbi Certificates**") are set out below.

Renminbi is not completely freely convertible and there are significant restrictions on the remittance of Renminbi into and out of the PRC which may adversely affect the liquidity of Renminbi Certificates

Renminbi is not completely freely convertible at present. The government of the PRC (the "**PRC Government**") continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar.

However, there has been significant reduction in control by the PRC Government in recent years, particularly over trade transactions involving import and export of goods and services, as well as other frequent routine foreign exchange transactions. These transactions are known as current account items.

On the other hand, remittance of Renminbi by foreign investors into the PRC for the settlement of capital account items, such as capital contributions, is generally only permitted upon obtaining specific approvals from, or completing specific registrations or filings with, the relevant authorities on a case-by-case basis and is subject to a strict monitoring system. Regulations in the PRC on the remittance of Renminbi into the PRC for settlement of capital account items are developing.

Although starting from 1 October 2016, the Renminbi has been added to the Special Drawing Rights basket created by the International Monetary Fund, there is no assurance that the PRC Government will continue to liberalise its control over cross-border remittance of Renminbi in the future or that new regulations in the PRC will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or out of the PRC. In the event that funds cannot be repatriated out of the PRC in Renminbi, this may affect the overall availability of Renminbi outside the PRC and the ability of the Trustee to source Renminbi to finance its obligations under Certificates denominated in Renminbi.

There is only limited availability of Renminbi outside the PRC, which may affect the liquidity of the Renminbi Certificates and the Trustee's ability to source Renminbi outside the PRC to service Renminbi Certificates

As a result of the restrictions by the PRC Government on cross-border Renminbi fund flows, the availability of Renminbi outside the PRC is limited. While the People's Bank of China (the "**PBOC**") has entered into agreements on the clearing of Renminbi business with financial institutions in a number of financial centres and cities (the "**Renminbi Clearing Banks**"), including, but not limited to, Hong Kong and are in the process of establishing Renminbi clearing and settlement mechanisms in several other jurisdictions (the "**Settlement Arrangements**"), the current size of Renminbi denominated financial assets outside the PRC is limited.

Renminbi business participating banks do not have direct Renminbi liquidity support from the PBOC. The relevant Renminbi Clearing Banks only have access to onshore liquidity support from the PBOC for the purpose of squaring open positions of participating banks for limited types of transactions and are not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services. In such cases, the participating banks will need to source Renminbi from outside the PRC to square such open positions.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated or the Settlement Arrangements will not be terminated or amended so as to have the effect of restricting availability of Renminbi outside the PRC. The limited availability of Renminbi outside the PRC may affect the liquidity of the Renminbi Certificates. To the extent the Trustee is required to source Renminbi in the offshore market to service its Renminbi Certificates, there is no assurance that the Trustee will be able to source such Renminbi on satisfactory terms, if at all. If Renminbi is not available in certain circumstances as described in the Conditions applicable to the Renminbi Certificates, the Trustee may make payments in U.S. dollars.

Investment in the Renminbi Certificates is subject to exchange rate risks

The value of Renminbi against the U.S. dollar and other foreign currencies fluctuates from time to time and is affected by changes in the PRC and international political and economic conditions, as well as many other factors. The Trustee will make all payments of profit and dissolution amounts with respect to the Renminbi Certificates in Renminbi unless otherwise specified. As a result, the value of these Renminbi payments may vary with the changes in the prevailing exchange rates in the marketplace. If the value of Renminbi depreciates against the U.S. dollar or other foreign currencies, the value of the investment made by a holder of the Renminbi Certificates in U.S. dollar or other applicable foreign currency will decline.

In the event that access to Renminbi becomes restricted to the extent that, by reason of RMB Inconvertibility, RMB Non-transferability or RMB Illiquidity (as defined in the Conditions), the Trustee is unable, or it is impractical for it, to pay profit or any dissolution amount in Renminbi, the Conditions allow the Trustee to make payment in U.S. dollars at the prevailing spot rate of exchange, all as provided in more detail in the Conditions. As a result, the value of these Renminbi payments may vary with the prevailing exchange rates in the marketplace. If the value of the Renminbi depreciates against the U.S. dollar or other foreign currencies, the value of a Certificateholder's investment in U.S. dollar or other foreign currency terms will decline.

Payments with respect to the Renminbi Certificates may be made only in the manner designated in the Renminbi Certificates

Investors may be required to provide certification and other information (including Renminbi account information) in order to be allowed to receive payments in Renminbi in accordance with the Renminbi clearing and settlement system for participating banks in Hong Kong.

Except in the limited circumstances stipulated in Condition 9.4, all payments to investors in respect of the Renminbi Certificates will be made solely (i) for so long as the Renminbi Certificates are represented by global certificates held with the common depositary for Clearstream Banking S.A. ("**Clearstream, Luxembourg**") and Euroclear Bank SA/NV ("**Euroclear**") or any alternative clearing system, by transfer to a Renminbi bank account maintained in Hong Kong or (ii) for so long as the Renminbi Certificates are in definitive form, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing rules and regulations. Other than described in the Conditions, the Trustee cannot be required to make payment by any other means (including in any other currency or by transfer to a bank account in the PRC).

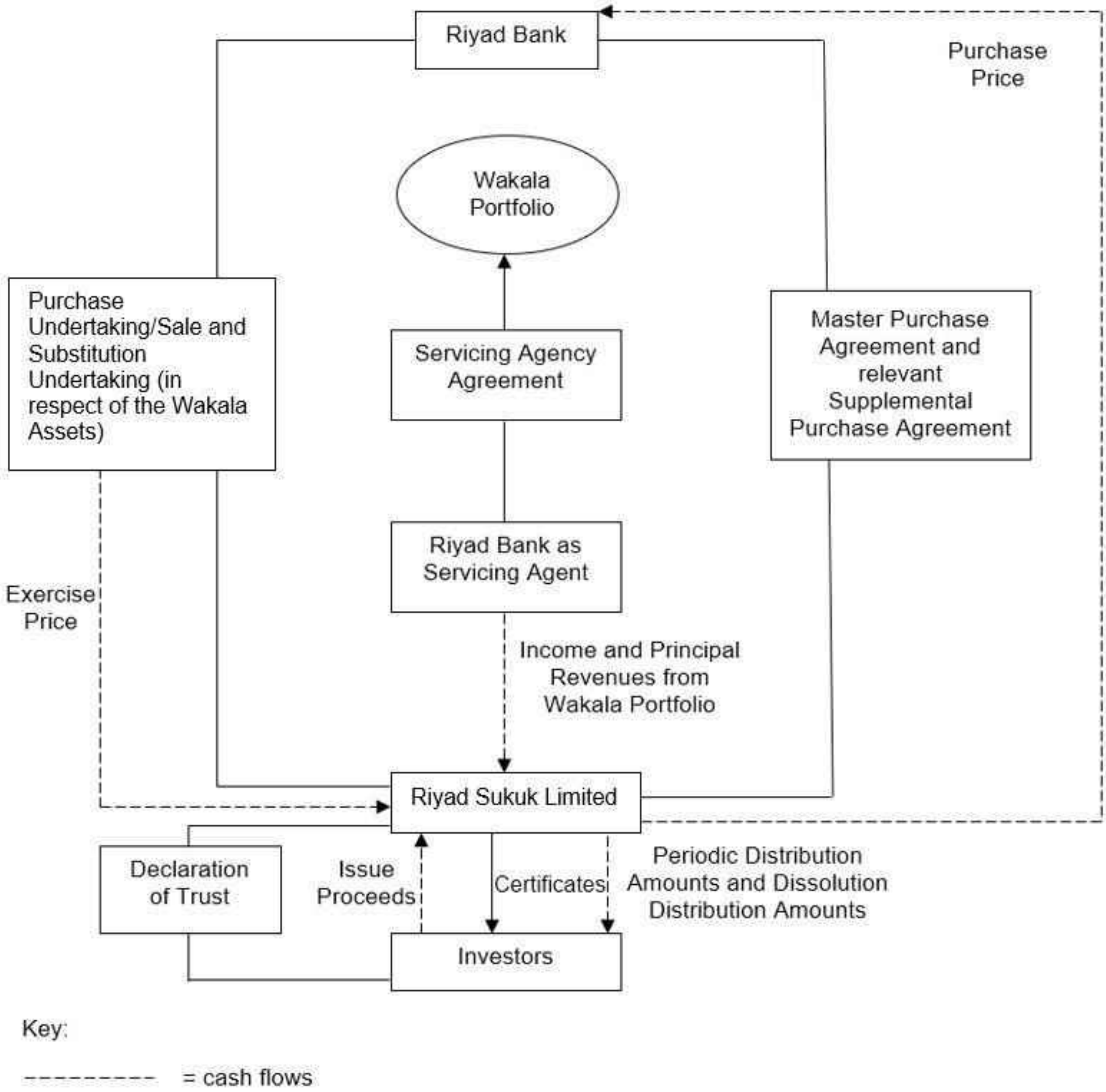
There may be PRC tax consequences with respect to investment in the Renminbi Certificates

In considering whether to invest in the Renminbi Certificates, investors should consult their individual tax advisers with regard to the application of PRC tax laws to their particular situations, as well as any tax consequences arising under the laws of any other tax jurisdictions. The value of the Certificateholder's investment in the Renminbi Certificates may be materially and adversely affected if the Certificateholder is required to pay PRC tax with respect to acquiring, holding or disposing of and receiving payments under those Renminbi Certificates.

STRUCTURE DIAGRAM AND CASH FLOWS

Set out below is a simplified structure diagram and description of the principal cash flows underlying each Series issued. Potential investors are referred to the terms and conditions of the Certificates and the detailed descriptions of the relevant Transaction Documents and the "*Terms and Conditions of the Certificates*" set out elsewhere in this Offering Circular for a fuller description of certain cash flows and for an explanation of the meaning of certain capitalised terms used below.

Structure Diagram



Principal cash flows

Payments by the Certificateholders and the Trustee

On the Issue Date of the first Tranche of any Series, the Trustee will use the proceeds for the relevant Series to purchase from Riyad Bank a portfolio (the "**Initial Portfolio**") of: (i) real estate assets ("**Real Estate Ijara**

Assets") (including the related real estate *ijara* contracts and all rights thereunder; provided, however, that such real estate asset is in existence on the date on which it enters the relevant Initial Portfolio); (ii) non-real estate *Ijara* assets (each such asset, a "**Non-Real Estate Ijara Asset**" and, together with the Real Estate Ijara Assets, each an "**Ijara Asset**") (including the related non-real estate *ijara* contracts and all rights thereunder; provided, however, that such non-real estate asset is in existence on the date on which it enters the relevant Initial Portfolio); and (iii) any asset, other than an Ijara Asset, which is an income generating asset (including, without limitation, any *sukuk* or trust certificates) that has associated with it underlying tangible assets and which is originated, held or owned by Riyad Bank in accordance with the *Shari'a* principles laid down by the Riyad Bank Shari'ah Committee (including any agreements or documents relating to such asset) (each such asset, an "**Other Sharia Compliant Asset**" and, together with the Ijara Assets, each an "**Asset**" or an "**Income Generating Asset**").

In the case of any subsequent Tranche of Certificates of a Series, the relevant Certificateholders will pay the issue price (as set out in the applicable Pricing Supplement) in respect of the issuance of additional Certificates to the Trustee, and the Trustee will use such proceeds to purchase from Riyad Bank the relevant Additional Portfolio pursuant to the terms of the Master Purchase Agreement.

The Assets which comprise the portfolio from time to time are together referred to in this Offering Circular as the "**Portfolio**". The Servicing Agent will be appointed as servicing agent to service each Portfolio under the terms of the Servicing Agency Agreement.

Periodic distribution payments

Prior to each Periodic Distribution Date, the Servicing Agent will pay to the Trustee (by way of a payment into the relevant Transaction Account) an amount reflecting returns generated (other than returns in the nature of sale, capital or principal payments) by the relevant Portfolio ("**Portfolio Income Revenues**") during the relevant Distribution Period, which is intended to be sufficient to fund the Periodic Distribution Amounts payable by the Trustee under the relevant Series and shall be applied by the Trustee for that purpose.

In the event that the Portfolio Income Revenues to be paid by the Servicing Agent into the relevant Transaction Account on any Distribution Determination Date are greater than the Required Amount (as defined below) (having first repaid (i) any Liquidity Facility and/or (ii) any Service Agency Liabilities Amounts for the relevant Distribution Period) for the relevant Series on the immediately following Periodic Distribution Date, the amount of any excess shall be retained by the Servicing Agent as a reserve and credited to a separate book-entry ledger account (in respect of each Series, the "**Income Reserve Collection Account**") maintained by the Servicing Agent.

If there is a shortfall on any Distribution Determination Date (after transfer of the Portfolio Income Revenues into the relevant Transaction Account as described above) between (i) the amounts standing to the credit of the relevant Transaction Account and (ii) an amount (the "**Required Amount**") equal to the aggregate of the Periodic Distribution Amounts and any other amounts payable by the Trustee in respect of the relevant Certificates on the immediately following Periodic Distribution Date (a "**Shortfall**"), the Servicing Agent shall first apply the amounts standing to the credit of the relevant Income Reserve Collection Account (if any) towards such Shortfall by transferring into the relevant Transaction Account from such Income Reserve Collection Account on that Distribution Determination Date an amount equal to the Shortfall (or such lesser amount as is then standing to the credit of such Income Reserve Collection Account). If, having applied such amounts standing to the credit of the relevant Income Reserve Collection Account (if any) and after payment to the relevant Transaction Account of all other amounts payable pursuant to any other Transaction Document, any part of the Shortfall still remains, the Servicing Agent may either:

(a) provide *Shari'a*-compliant funding to the Trustee itself; or

(b) procure *Shari'a*-compliant funding from a third party to be paid to the Trustee,

in each case, in the amount required to ensure that there is no Shortfall and on terms that such funding is repayable from the Portfolio Income Revenues in the future or on the date on which the Certificates of the relevant Series are redeemed in full (each a "**Liquidity Facility**").

Dissolution payments

On each Scheduled Dissolution Date, the Trustee will have the right under the Purchase Undertaking to require Riyad Bank to purchase all of the Trustee's rights, title, interests, benefits and entitlements in, to and under the relevant Portfolio. The exercise price payable by Riyad Bank is intended to fund the Final Dissolution Amount payable by the Trustee under the relevant Certificates.

The Trust in relation to any Series may be dissolved prior to the relevant Scheduled Dissolution Date for the following reasons: (i) redemption following a Dissolution Event; (ii) an early redemption for tax reasons; (iii) (in the case of Tier 2 Certificates) redemption upon a Capital Disqualification Event; (iv) if so specified in the applicable Pricing Supplement, at the option of Riyad Bank (following the receipt of an Exercise Notice from Riyad Bank as defined and in accordance with the terms of the Sale and Substitution Undertaking) on an Optional Dissolution Date; and (v) if so specified in the applicable Pricing Supplement, at the option of the Certificateholders on any Certificateholder Put Option Date.

In the case of sub-paragraphs (i) to (iv) above, inclusive, the amounts payable by the Trustee on the due date for dissolution will be funded in a similar manner as for the payment of the Final Dissolution Amount. Upon the exercise by Certificateholders of the option described in sub-paragraph (v) above, the Trustee will redeem the relevant Certificates on the Certificateholder Put Option Date at the Optional Dissolution Amount (Certificateholder Put). Any such redemption shall be funded through the exercise by the Trustee of its right under the Purchase Undertaking to require Riyad Bank to purchase all of the Trustee's rights, title, interests, benefits and entitlements in, to and under a portion of the relevant Portfolio with an aggregate Value (as defined below under "*Summary of the Principal Transaction Documents—Servicing Agency Agreement*") no greater than the aggregate face amount of the Certificates to be redeemed.

OVERVIEW OF THE PROGRAMME

The following is an overview of the principal features of the Programme. This overview does not contain all of the information that an investor should consider before investing in Certificates and is qualified in its entirety by the remainder of this Offering Circular and the applicable Pricing Supplement. Each investor should read the entire Offering Circular and the applicable Pricing Supplement carefully, especially the risks of investing in Certificates issued under the Programme discussed under "Risk Factors".

Words and expressions defined in "Structure Diagram and Cash flows", "Form of the Certificates" and "Terms and Conditions of the Certificates" shall have the same meanings in this overview.

Issuer and Trustee:	Riyad Sukuk Limited, a limited liability exempted company incorporated in accordance with the laws of, and formed and registered in, the Cayman Islands with registered number 338136 and its registered office at MaplesFS Limited, P.O. Box 1093, Queensgate House, Grand Cayman KY1-1102, Cayman Islands. The Trustee has been incorporated solely for the purpose of participating in the transactions contemplated by the Transaction Documents (as defined below) to which it is a party.
Issuer and Trustee Legal Entity Identifier:	549300P8GI2KKEMZUH97.
Seller and Servicing Agent:	Riyad Bank.
Risk Factors:	There are certain factors that may affect the Trustee's ability to fulfil its obligations under Certificates issued under the Programme, and Riyad Bank's obligations under the Transaction Documents to which it is a party. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Certificates issued under the Programme. All of these factors are set out under "*Risk Factors*" above.
Ownership of the Trustee:	The authorised share capital of the Trustee is U.S.$50,000 consisting of 50,000 shares of U.S.$1 each, of which 250 shares are fully paid up and issued. The Trustee's entire issued share capital is held by MaplesFS Limited on trust for charitable purposes.
Administration of the Trustee:	The affairs of the Trustee are managed by MaplesFS Limited (the "**Trustee Administrator**"), who will provide, amongst other things, certain administrative services for and on behalf of the Trustee pursuant to a Corporate Services Agreement dated on 6 February 2020 between the Trustee and the Trustee Administrator (the "**Corporate Services Agreement**"). The Trustee Administrator's registered office is P.O. Box 1093, Queensgate House, Grand Cayman KY1 - 1102, Cayman Islands.
Arrangers:	J.P. Morgan Securities plc, Riyad Capital and Standard Chartered Bank.
Dealers:	J.P. Morgan Securities plc, Riyad Capital and Standard Chartered Bank and any other Dealer appointed from time to time either

	generally in respect of the Programme or in relation to a particular Tranche of Certificates.
Delegate:	Citibank, N.A., London Branch. Pursuant to the Master Declaration of Trust, the Trustee shall delegate to the Delegate certain of the present and future duties, powers, trusts, authorities and discretions vested in the Trustee by certain provisions of the Master Declaration of Trust. In particular, the Delegate shall be entitled to (and, in certain circumstances, shall, subject to being indemnified and/or secured and/or pre-funded to its satisfaction, be obliged to) take enforcement action in the name of the Trustee against the Seller and/or the Servicing Agent and/or Riyad Bank following a Dissolution Event.
Principal Paying Agent and Transfer Agent:	Citibank, N.A., London Branch.
Registrar:	Citigroup Global Markets Europe AG.
Certain Restrictions:	Each Series denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale*"). The proceeds of each Series will not be accepted in the United Kingdom except in compliance with applicable law, including Article 5 of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001.
Programme Size:	Up to U.S.$3,000,000,000 (or its equivalent in other currencies calculated as described in the Dealer Agreement) outstanding at any time. The Trustee and Riyad Bank may increase the size of the Programme in accordance with the terms of the Dealer Agreement.
Issuance in Series:	The Certificates will be issued in Series. Each Series may comprise one or more Tranches issued on different Issue Dates. The Certificates of each Series will have the same terms and conditions (which will be completed in the applicable Pricing Supplement) or terms and conditions which are the same in all respects save for the amount and date of the first payment of Periodic Distribution Amounts thereon and the date from which Periodic Distribution Amounts start to accrue.
Distribution:	Certificates may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Subject to any applicable legal or regulatory restrictions, Certificates may be denominated in any currency agreed between the Trustee, Riyad Bank and the relevant Dealer.

Maturities:	The Certificates will have such maturities as may be agreed between the Trustee, Riyad Bank and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Trustee or the relevant Specified Currency.
Issue Price:	Certificates may be issued at any price on a fully paid basis, as specified in the applicable Pricing Supplement. The price and amount of Certificates to be issued under the Programme will be determined by the Trustee, Riyad Bank and the relevant Dealer at the time of issue in accordance with prevailing market conditions.
Form of Certificates:	The Certificates will be issued in registered form as described in "*Form of the Certificates*". The Certificates of each Tranche will be represented on issue by ownership interests in a Global Certificate which will be deposited with, and registered in the name of a nominee of, a common depositary for Euroclear and Clearstream, Luxembourg. Ownership interests in each Global Certificate will be shown on, and transfers thereof will only be effected through, records maintained by each relevant clearing system and its participants. See "*Form of the Certificates*". Definitive Certificates evidencing holdings of Certificates will be issued in exchange for ownership interests in a Global Certificate only in limited circumstances.
Clearance and Settlement:	Holders of the Certificates must hold their interest in the relevant Global Certificate in book-entry form through Euroclear or Clearstream, Luxembourg. Transfers within and between Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant clearance systems.
Face Amount of Certificates:	The Certificates will be issued in such face amounts as may be agreed between the Trustee, Riyad Bank and the relevant Dealer save that the minimum face amount of each Certificate will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see "*Certain Restrictions*", and save that the minimum face amount of each Certificate listed or admitted to trading on a stock exchange or market, as the case may be, will be €100,000 (or, if the Certificates are issued in a currency other than euro, the equivalent amount in such currency).
Status of the Senior Certificates:	Each Senior Certificate will evidence an undivided ownership interest of the Certificateholders in the Trust Assets of the relevant Series, will be a direct, unsubordinated, unsecured and limited recourse obligation of the Trustee and will rank *pari*

passu, without any preference or priority, with all other Senior Certificates of the relevant Series issued under the Programme.

Status of the Tier 2 Certificates: Each Tier 2 Certificate will evidence an undivided ownership interest of the Certificateholders in the Trust Assets of the relevant Series, will be a direct, unsecured and limited recourse obligation of the Trustee and will rank *pari passu*, without any preference or priority, with all other Tier 2 Certificates of the relevant Series issued under the Programme.

Subordination of Tier 2 Certificates: The payment obligations of Riyad Bank under the Transaction Documents to which it is a party to fund the Periodic Distribution Amounts, the Dissolution Amount and any other amounts payable under the Tier 2 Certificates, will constitute direct, unsecured and subordinated obligations of Riyad Bank and shall, in the case of a Winding Up Proceeding, rank:

(i) subordinate to claims in respect of Senior Obligations;

(ii) at least *pari passu* with claims in respect of Parity Obligations; and

(iii) in priority to claims in respect of Junior Obligations.

By virtue of such subordination, no amount will, if a Winding Up Proceeding occurs, be paid by Riyad Bank in relation to the Tier 2 Certificates until all claims in respect of Senior Obligations have been satisfied.

Trust Assets: The Trust Assets of the relevant Series will be all of the Trustee's rights, title, interest and benefit, present and future, in, to and under (i) the relevant Portfolio, (ii) the Transaction Documents (other than (a) in relation to any representations given to the Trustee by Riyad Bank pursuant to any of the Transaction Documents and any rights which have been expressly waived by the Trustee in any of the Transaction Documents and (b) the covenant given to the Trustee pursuant to clause 13.1 of the Master Declaration of Trust), (iii) all monies standing to the credit of the relevant Transaction Account from time to time, and all proceeds of the foregoing listed (i) to (iii) above (the "**Trust Assets**"), and such Trust Assets will be held upon trust absolutely for the Certificateholders *pro rata* according to the face amount of Certificates held by each Certificateholder for the relevant Series.

Periodic Distributions: Certificateholders are entitled to receive Periodic Distribution Amounts calculated on the basis specified in the applicable Pricing Supplement.

Redemption of Certificates: Unless the Certificates are previously redeemed or purchased and cancelled, the Certificates shall be redeemed by the Trustee at the relevant Dissolution Amount and on the relevant Scheduled Dissolution Date specified in the applicable Pricing Supplement and the Trust in relation to the relevant Series will be dissolved by the Trustee.

Dissolution Events: In respect of the Senior Certificates only, upon the occurrence of any Dissolution Event as described in Condition 16.1, the Certificates may be redeemed in full on the Dissolution Date at the relevant Dissolution Amount, together with any accrued but unpaid Periodic Distribution Amount and the relevant Return Accumulation Period may be adjusted accordingly. See Condition 16.1

In respect of the Tier 2 Certificates only, upon the occurrence of any Dissolution Event as described in Condition 16.2, the Trustee or the Delegate (in either case, subject to it being indemnified and/or secured and/or prefunded to its satisfaction) shall, if so requested in writing by the holders of at least 25 per cent. of the aggregate face amount of the Certificates then outstanding or by Extraordinary Resolution, (a) in the case of a Default, institute proceedings for Riyad Bank to be declared bankrupt or insolvent or for there otherwise to be a Winding Up Proceeding and prove in the winding-up, dissolution or liquidation of Riyad Bank; and (b) in the case of a Winding Up Proceeding, claim or prove in the winding-up, dissolution and liquidation of Riyad Bank.

Early Dissolution following a Tax Event or a Capital Disqualification Event: Subject to Condition 11.9 in relation to Tier 2 Certificates, where (i) the Trustee has or will become obliged to pay any additional amounts in respect of the Certificates pursuant to Condition 13 or (ii) Riyad Bank has or will become obliged to pay any additional amounts under the Servicing Agency Agreement, the Purchase Undertaking and/or the Sale and Substitution Undertaking, in each case as a result of a change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in the Conditions) and such obligation cannot be avoided by the Trustee or Riyad Bank, as applicable, taking reasonable measures available to it, the Trustee may, following receipt of an exercise notice from Riyad Bank pursuant to the Sale and Substitution Undertaking, redeem the Certificates in whole but not in part at an amount equal to the relevant Early Dissolution Amount (Tax) together with any accrued but unpaid Periodic Distribution Amounts on the relevant Dissolution Date and, if the Floating Periodic Distribution Provisions are specified in the applicable Pricing Supplement as being applicable, the Dissolution Date must be a Periodic Distribution Date.

In the case of Tier 2 Certificates only, and subject to Condition 11.9, if a Capital Disqualification Event has occurred, the Trustee may, following receipt of an exercise notice from Riyad Bank pursuant to the Sale and Substitution Undertaking redeem the Certificates in whole but not in part at the Early Dissolution Amount (Capital Disqualification Event) together with any accrued but unpaid Periodic Distribution Amount on the relevant Dissolution Date and, if the Floating Periodic Distribution

Provisions are specified in the applicable Pricing Supplement as being applicable, the Dissolution Date must be a Periodic Distribution Date.

Optional Dissolution Right: Subject to Condition 11.9 in the case of Tier 2 Certificates only, if so specified in the applicable Pricing Supplement, the Trustee may, following receipt of an exercise notice from Riyad Bank pursuant to the Sale and Substitution Undertaking, redeem in whole but not in part the Certificates of the relevant Series at the relevant Optional Dissolution Amount (Call) on the relevant Optional Dissolution Date and, if the Floating Periodic Distribution Provisions are specified in the applicable Pricing Supplement as being applicable, the Optional Dissolution Date must be a Periodic Distribution Date.

If applicable to the relevant Series, the Optional Dissolution Date(s) will be specified in the applicable Pricing Supplement.

For *Shari'a* reasons, the Optional Dissolution (Call) and the Certificateholder Put Option cannot both be specified as applicable in any single Series.

Certificateholder Put Option: In the case of Senior Certificates only and if so specified in the applicable Pricing Supplement, Certificateholders may elect to redeem their Certificates on any Certificateholder Put Option Date(s) specified in the applicable Pricing Supplement at an amount equal to the relevant Optional Dissolution Amount (Certificateholder Put) together with any accrued but unpaid Periodic Distribution Amounts in accordance with Condition 11.5. Following the payment by Riyad Bank of the relevant exercise price under the Purchase Undertaking, the Trustee will redeem the relevant Certificates on the relevant Certificateholder Put Option Date.

For *Shari'a* reasons, the Certificateholder Put Option and Optional Dissolution (Call) cannot both be specified as applicable in any single Series.

Non-Viability/Write-down of the Certificates: In the case of Tier 2 Certificates only, if a Non-Viability Event occurs at any time on or after the Issue Date of a Series of Certificates and prior to the date on which the Applicable Statutory Loss Absorption Regime becomes effective in respect of the Certificates, the Tier 2 Certificates shall be written-down subject to and as provided in Condition 12. See Condition 12 for further information on such potential Write-downs, including for the definitions of various terms used in this section.

A "**Non-Viability Event**" means that the Financial Regulator has notified Riyad Bank in writing that it has determined that Riyad Bank is, or will become, Non-Viable without:

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

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

Cancellation of Certificates held by Riyad Bank and/or any of its Subsidiaries: Pursuant to Condition 15, and subject to Condition 11.9 in the case of Tier 2 Certificates only, Riyad Bank and/or any of its Subsidiaries may at any time purchase Certificates in the open market or otherwise. If Riyad Bank wishes to cancel such Certificates purchased by it and/or any of its Subsidiaries, Riyad Bank will deliver those Certificates to the Principal Paying Agent for cancellation. Riyad Bank may also exercise its option under the Sale and Substitution Undertaking to require the Trustee to transfer to Riyad Bank an undivided ownership interest (each a "**Cancellation Interest**") in the relevant Portfolio with an aggregate Value no greater than the aggregate face amount of the Certificates so delivered to the Principal Paying Agent for cancellation and, upon such cancellation, the Trustee will transfer those Assets to Riyad Bank, all as more particularly described in the Sale and Substitution Undertaking. Each Cancellation Interest will be calculated as the ratio, expressed as a percentage, of the aggregate outstanding face amount of the relevant Certificates to be cancelled to the aggregate face amount of the Certificates outstanding immediately prior to the cancellation of such Certificates.

Asset Substitution: The Servicing Agent may substitute Assets in accordance with the relevant provisions of the Servicing Agency Agreement and the Sale and Substitution Undertaking, provided that no Dissolution Event has occurred and is continuing, the substitute assets are Assets and the Value of such substitute assets shall have an aggregate Value which is not less than the aggregate Value of the Assets to be so substituted.

Withholding Tax: All payments by Riyad Bank under, or pursuant to, the Purchase Undertaking and Sale and Substitution Undertaking and all payments by the Servicing Agent under the Servicing Agency Agreement shall be made without withholding or deduction for, or on account of, any taxes, levies, imposts, duties, fees, assessments or governmental charges of whatever nature imposed or levied by or on behalf of any Relevant Jurisdiction unless the withholding is required by law. In the event that any such withholding or deduction is made, Riyad Bank and/or the Servicing Agent, as the case may be, will be required to pay additional amounts so that the Trustee will receive the full amounts that it would have received in the absence of such withholding or deduction.

All payments in respect of Certificates by the Trustee shall be made without withholding or deduction for, or on account of, any taxes, levies, imposts, duties, fees, assessments or governmental charges of whatever nature imposed or levied by or on behalf of any Relevant Jurisdiction. If any such withholding or deduction is made, the Trustee will, save in the limited circumstances provided in Condition 13, be required to pay additional amounts so that the holders of the Certificates will receive the full amounts that they would have received in the absence of such withholding or deduction.

Negative Pledge: The Purchase Undertaking contains a negative pledge given by Riyad Bank applicable to Senior Certificates only. See "*Summary of the Principal Transaction Documents—Servicing Agency Agreement - Purchase Undertaking*".

Cross-Default: The Purchase Undertaking contains a cross-default provision in relation to Riyad Bank applicable to Senior Certificates only. See "*Summary of the Principal Transaction Documents—Servicing Agency Agreement - Purchase Undertaking*".

Trustee Covenants: The Trustee has agreed to certain restrictive covenants as set out in Condition 5.

Ratings: The Bank has been assigned long-term foreign currency ratings of BBB+ with a stable outlook by Fitch, BBB+ with a stable outlook by S&P and A+ with a stable outlook by Capital Intelligence. The Bank has also been assigned a deposit rating of A2 with a stable outlook by Moody's.

The Programme has been assigned long-term ratings of "A2 senior unsecured", in respect of the Senior Certificates, and "Baa3 contractual point of non-viability subordinated rating", in respect of the Tier 2 Certificates, by Moody's and "BBB+", in respect of the Senior Certificates, by Fitch.

Each of Moody's, Fitch, S&P and Capital Intelligence is established in the EU and is registered under the CRA Regulation. As such, each of Moody's, Fitch, S&P and Capital Intelligence is included in the list of credit rating agencies published by ESMA on its website in accordance with the CRA Regulation.

A Series to be issued under the Programme may be rated or unrated. Where a Series of Certificates is to be rated, its rating will be specified in the applicable Pricing Supplement and will not necessarily be the same as the rating assigned to the Programme.

	A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.
Certificateholder Meetings:	A summary of the provisions for convening meetings of Certificateholders of each Series to consider matters relating to their interests as such is set out in Condition 20.
Tax Considerations:	See "*Taxation*" for a description of certain tax considerations applicable to the Certificates.
Listing and Admission to Trading:	Application has been made to the London Stock Exchange for the Certificates issued under the Programme to be admitted to trading on the ISM. Certificates may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Trustee, Riyad Bank and the relevant Dealer in relation to the Series. Certificates which are neither listed nor admitted to trading on any market may also be issued. The applicable Pricing Supplement will state whether or not the relevant Certificates are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.
Transaction Documents:	The Transaction Documents are the Master Declaration of Trust, each Supplemental Declaration of Trust, the Agency Agreement, the Master Purchase Agreement, each Supplemental Purchase Contract, the Servicing Agency Agreement, the Purchase Undertaking and the Sale and Substitution Undertaking.
Governing Law and Dispute Resolution:	The Certificates of each Series and any non-contractual obligations arising out of or in connection with the Certificates of each Series will be governed by, and construed in accordance with, English law, except that the provisions of Conditions 3.2, 3.3 and 3.4 (and related provisions of the Declaration of Trust), clause 4.2(ii) of the Purchase Undertaking and clause 8.2(ii) of the Servicing Agency Agreement relating to subordination and set-off of the Tier 2 Certificates, are governed by the laws and regulations of Saudi Arabia. The Master Declaration of Trust, each Supplemental Declaration of Trust, the Dealer Agreement, the Agency Agreement, the Servicing Agency Agreement, the Purchase Undertaking, the Sale and Substitution Undertaking and any non-contractual obligations arising out of or in connection with the same will be governed by English law. In respect of any dispute under any such agreement or deed to which it is a party, Riyad Bank has consented to arbitration in London under the LCIA Arbitration Rules. Each of the Master Purchase Agreement, each Supplemental Purchase Contract, each "Sale Agreement" entered into under the Purchase Undertaking and each "Sale Agreement" or "Transfer

Agreement" entered into under the Sale and Substitution Undertaking will be governed by the laws of Saudi Arabia and will be subject to the non-exclusive jurisdiction of the courts of Saudi Arabia.

The Corporate Services Agreement will be governed by the laws of the Cayman Islands and will be subject to the non-exclusive jurisdiction of the courts of the Cayman Islands.

Waiver of Immunity: To the extent that Riyad Bank may claim for itself, its assets or revenues immunity from jurisdiction, enforcement, prejudgment proceedings, injunctions and all other legal proceedings and relief and to the extent that such immunity (whether or not claimed) may be attributed to it, its assets or revenues, Riyad Bank will agree in the Transaction Documents to which it is a party not to claim and will irrevocably and unconditionally waive such immunity in relation to any legal proceedings. Further, Riyad Bank will irrevocably and unconditionally consent to the giving of any relief or the issue of any legal proceedings, including, without limitation, jurisdiction, enforcement, prejudgment proceedings and injunctions in connection with any legal proceedings.

The Corporate Services Agreement and the Share Declaration of Trust are governed by the laws of the Cayman Islands.

Limited Recourse and Non-Viability Conditions: Each Certificate represents solely an undivided ownership interest in the relevant Trust Assets. No payment of any amount whatsoever shall be made in respect of the Certificates except to the extent that funds for that purpose are available for the relevant Trust Assets.

Certificateholders will otherwise have no recourse to any assets of the Trustee or Riyad Bank in respect of any shortfall in the expected amounts due under the relevant Trust Assets to the extent the Trust Assets have been exhausted, following which all obligations of the Trustee shall be extinguished.

In respect of Tier 2 Certificates only, all claims by the Trustee (or the Delegate acting in the name and on behalf of the Trustee) against Riyad Bank under the Transaction Documents (including, without limitation, any claim in relation to any unsatisfied payment obligation of Riyad Bank under the Transaction Documents) shall be subject to, and shall be superseded by the provisions of Condition 12, irrespective of whether the relevant Non-Viability Event occurs prior to or after the event which is the subject matter of the claim, provided that nothing in the Conditions shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Delegate or the rights and remedies of the Delegate in respect thereof, all of which shall accordingly remain unsubordinated.

Selling Restrictions:	There are restrictions on the distribution of this Offering Circular and the offer or sale of Certificates in the United States, the EEA (including, for these purposes, the United Kingdom), the Cayman Islands, Japan, the United Arab Emirates (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, Saudi Arabia, the Kingdom of Bahrain, the State of Qatar (including the Qatar Financial Centre), the State of Kuwait, Singapore, Hong Kong, Malaysia and the PRC.
United States Selling Restrictions:	Regulation S, Category 2.

FORM OF THE CERTIFICATES

The Certificates of each Series will be in registered form. Certificates will be issued outside the United States to persons who are not U.S. persons in reliance on Regulation S.

Each Tranche of Certificates will initially be represented by a global certificate in registered form (a "**Global Certificate**"). Global Certificates will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg and will be registered in the name of a nominee for the common depositary. Persons holding ownership interests in Global Certificates will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Certificates in fully registered form.

Payments of any amount in respect of each Global Certificate will, in the absence of any provision to the contrary, be made to the person shown on the relevant Register (as defined in Condition 1.2) as the registered holder of the relevant Global Certificate. None of the Trustee, the Delegate, any Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in the Global Certificates or for maintaining, supervising or reviewing any records relating to such ownership interests.

Payment of any amounts in respect of Certificates in definitive form will, in the absence of any provision to the contrary, be made to the persons shown on the relevant Register on the relevant Record Date (as defined in Condition 9.1) immediately preceding the due date for payment in the manner provided in the Conditions.

Interests in a Global Certificate will be exchangeable (free of charge), in whole but not in part, for definitive Certificates only upon the occurrence of an Exchange Event. The Trustee will promptly give notice to Certificateholders in accordance with Condition 19 if an Exchange Event occurs. For these purposes, "**Exchange Event**" means that (i) a Dissolution Event (as defined in Condition 16) has occurred and is continuing, or (ii) the Trustee has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system satisfactory to the Trustee is available. In the event of the occurrence of an Exchange Event, any of the Trustee or Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Global Certificate) may give notice to the Registrar requesting exchange.

In such circumstances, the relevant Global Certificate shall be exchanged in full for Definitive Certificates and the Trustee will, at the cost of the Trustee (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Certificates to be executed and delivered to the Registrar within 15 days following the request for exchange for completion and dispatch to the relevant Certificateholders. A person having an interest in a Global Certificate must provide the Registrar with a written order containing instructions and such other information as the Trustee and the Registrar may require to complete, execute and deliver such Definitive Certificates.

General

For so long as any of the Certificates or any part of them are represented by a Global Certificate held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular aggregate face amount of such Certificates, (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the aggregate face amount of such Certificates standing to the account of any person shall be conclusive and binding for all purposes (save in the case of manifest error,)) shall be treated by the Trustee, the Delegate and their respective agents as the holder of such aggregate face amount of such Certificates for all purposes other than with respect to any payment on such aggregate face amount of such Certificates (and the person in whose name the Global Certificate is registered (as set out in the Register) shall not be deemed to be the holder), for which purpose the registered holder of the relevant Global Certificate shall be treated by the Trustee, the Delegate and their respective agents as the holder of such face amount of such Certificates in accordance with and subject to the terms of the relevant Global Certificate, and the expressions "**Certificateholder**" and "**holder of Certificates**" and related expressions shall be construed accordingly.

Pursuant to the Agency Agreement (as defined herein), the Principal Paying Agent shall arrange that, where a further Tranche is issued which is intended to form a single Series with an existing Tranche at a point after the Issue Date of the further Tranche, the Certificates of such further Tranche shall be assigned a common code and ISIN which are different from the common code and ISIN assigned to Certificates of any other Tranche of the same Series until such time as the Tranches are consolidated and form a single Series.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement.

FORM OF PRICING SUPPLEMENT

Set out below is the form of Pricing Supplement which will be completed for each Tranche issued under the Programme.

NO PROSPECTUS IS REQUIRED IN ACCORDANCE WITH REGULATION (EU) 2017/1129 (THE "PROSPECTUS REGULATION") FOR THE ISSUE OF THE CERTIFICATES DESCRIBED BELOW AND THE UNITED KINGDOM LISTING AUTHORITY HAS NEITHER APPROVED NOR REVIEWED INFORMATION CONTAINED HEREIN.

[**MiFID II product governance / Professional investors and ECPs only target market** – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Certificates has led to the conclusion that: (i) the target market for the Certificates is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, "**MiFID II**"); and (ii) all channels for distribution of the Certificates to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Certificates (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Certificates (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

[**PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS –** The Certificates are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**") or in the United Kingdom (the "**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended the "**PRIIPs Regulation**") for offering or selling the Certificates or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Certificates or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.][1]

[In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures Act (Capital Market Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Trustee has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Certificates [are] / [are not] prescribed capital markets products (as defined in the CMP Regulations 2018) and [are] [Excluded] / [Specified] Investment Products (as defined in MAS Notice SFA 04 N12: Notice on Sale of Investment Products and MAS Notice FAA N16: Notice on Recommendation on Investment Products.][2]

Any person making or intending to make an offer of the Certificates may only do so in circumstances in which no obligation arises for the Trustee, the Bank or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or to supplement a prospectus pursuant to Article 23 of the Prospectus Regulation, in each case, in relation to such offer.

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1 To be included in respect of Tier 2 Certificates only where Part B item 6 (v) of the Pricing Supplement specifies "Applicable".

2 For any Certificates to be offered to Singapore investors, the Trustee to consider whether it needs to re-classify the Certificates pursuant to Section 309B of the SFA prior to the launch of the offer.

[*Date*]

Riyad Sukuk Limited

Legal Entity Identifier: 549300P8GI2KKEMZUH97

Issue of [Aggregate Face Amount of Tranche] [Title of Certificates] [to be consolidated and form a single series with the existing [Aggregate Face Amount of Tranche] [Title of Certificates] issued on [●] (the "**Original Certificates**")][3]

under the
U.S.$3,000,000,000
Trust Certificate Issuance Programme

PART A – CONTRACTUAL TERMS

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated 11 February 2020 [and the supplement[s] to the Offering Circular dated [●]] (the "**Offering Circular**"). This document constitutes the Pricing Supplement of the Certificates described herein and must be read in conjunction with the Offering Circular. The Offering Circular is available for viewing during normal business hours at the registered office of the Trustee at MaplesFS Limited, P.O. Box 1093, Queensgate House, Grand Cayman, KY1-1102, Cayman Islands and copies may be obtained from the registered office of the Principal Paying Agent at Citigroup Centre, Canada Square, London, E14 5LB, United Kingdom.]

[*Include whichever of the following apply or specify as "Not Applicable". Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs (in which case the sub-paragraphs of the paragraphs which are not applicable can be deleted). Italics denote directions for completing the Pricing Supplement.*]

[*If the Certificates have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.*]

1	Issuer and Trustee:		Riyad Sukuk Limited
2	Servicing Agent:		Riyad Bank ("**Riyad Bank**")
3	Series Number:		[●]
	(a)	Tranche Number:	[●]
	(b)	Date on which the Certificates will be consolidated and form a single Series:	[The Certificates will be consolidated and form a single Series with [*identify earlier Tranche(s)*] on [*insert date*/the Issue Date]] [Not Applicable]
4	Specified Currency:		[●]
5	Aggregate Face Amount:		[●]
	(a)	Series:	[●]
	(b)	Tranche:	[●]
6	Issue Price:		[●] per cent. of the Aggregate Face Amount [plus *specified currency* [●] in respect of [●] days of accrued Periodic Distribution Amounts from (and including) *the issue date of the Original Certificates* to (but excluding) the Issue Date][4]

3 Include only for an issue of further Certificates in accordance with Condition 22.

4 Include only for an issue of further Certificates in accordance with Condition 22.

7	(a)	Specified Denominations: *(this means the minimum integral face amount in which transfers can be made)*	[●] (*Note: where multiple denominations above €100,000 or equivalent are being used the following sample wording shall be followed: "€100,000 and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Certificates in definitive form will be issued with a denomination above [€199,000]*)
	(b)	Calculation Amount (in relation to the calculation of the Periodic Distribution Amount whilst the Certificates are in global form, see Conditions):	[●] *(If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)*
8	(a)	Issue Date:	[●]
	(b)	Return Accrual Commencement Date:	[Issue Date] [*specify other*]
9	Scheduled Dissolution Date:		[*Specify date or (for Floating Periodic Distribution Certificates) Periodic Distribution Date falling in or nearest to the relevant month and year.*] (*Note that for Renminbi denominated Fixed Periodic Distribution Certificates where the Periodic Distribution Dates and the Periodic Distribution Amount to be paid on such Periodic Distribution Dates are subject to modification in accordance with a Business Day Convention, it will be necessary to use the following wording: "Periodic Distribution Date falling in or nearest to [specify month and year.]"*)
10	Periodic Distribution Amount Basis:		[[●] per cent. Fixed Periodic Distribution Amount] [[●] month *EURIBOR/LIBID/LIBOR//LIMEAN/SHIBOR/ HIBOR/SIBOR/KLIBOR/EIBOR/SAIBOR/BBSW/AUD LIBOR/JPY LIBOR/PRIBOR/CNH HIBOR/TRLIBOR or TRYLIBOR/TIBOR* +/– [●] per cent. Floating Periodic Distribution Amount] [[●] per cent. to be reset on [●] [and [●]] Reset Periodic Distribution Amount] (see paragraph [17]/[18]/[19] below)
11	Dissolution Basis:		Subject to any purchase and cancellation or early redemption, the Certificates will be redeemed on the Scheduled Dissolution Date at [[●] per cent. of their Aggregate Face Amount][their outstanding face amount]
12	Change of Periodic Distribution Basis:		[*Specify the date when any rate change occurs or cross-refer to paragraphs 17, 18 and 19 below and identify these*] [Not Applicable]
13	Put/Call Options:		[Not Applicable] [Certificateholder Put Option] [Optional Dissolution (Call)]

		[(see paragraph [20]/[21] below)]
14	Status:	[Senior Certificates/Tier 2 Certificates]
15	Date of Trustee's board approval and date of Riyad Bank's board approval for the issuance of the Certificates:	[●] and [●], respectively

Provisions relating to Periodic Distributions Payable

16	Notice periods for Condition 10.2:	Minimum period: [30] days Maximum period: [60] days
17	Fixed Periodic Distribution Provisions:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(a) Rate[s]:	[●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear on each Periodic Distribution Date]
	(b) Periodic Distribution Date(s):	[[●] in each year up to and including the Scheduled Dissolution Date] (*NB: This will need to be amended in the case of long or short return accumulation periods*) (*For Renminbi denominated Fixed Periodic Distribution Certificates where the Periodic Distribution Dates and the Periodic Distribution Amount to be paid on such Periodic Distribution Dates are subject to modification, specify a Business Day Convention in paragraph 17(g) below (which is expected to be the Modified Following Business Day Convention) and add the words ", subject to adjustment in accordance with the Business Day Convention after "Scheduled Dissolution Date" in this subparagraph (b)*)"
	(c) Fixed Amount(s) for Certificates in definitive form (and in relation to Certificates in global form, see Conditions):	[●] per Calculation Amount. (*For Renminbi denominated Fixed Periodic Distribution Certificates where the Periodic Distribution Dates and the Periodic Distribution Amount to be paid on such Periodic Distribution Dates are subject to modification in accordance with a Business Day Convention, the following alternative wording is appropriate: "Each Fixed Amount shall be calculated by multiplying the product of the Rate and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest CNY0.01, CNY0.005 being rounded upwards."*)

	(d)	Broken Amount(s) for Certificates in definitive form (and in relation to Certificates in global form, see Conditions):	[[●] per Calculation Amount, payable on the Periodic Distribution Date falling [in/on] [●]] [Not Applicable]
			(Insert particulars of any initial or final broken Periodic Distribution Amounts which do not correspond with the Fixed Amount(s) specified under paragraph 17(c))
	(e)	Day Count Fraction:	[30/360 or Actual/Actual (ICMA) or Actual/365 (Fixed) (*Applicable for Renminbi - denominated Fixed Periodic Distribution Certificates*)]
	(f)	Determination Date(s):	[●] in each year
			(*Insert regular periodic distribution dates, ignoring issue date or scheduled dissolution date in the case of a long or short first or last return accumulation period N.B. This will need to be amended in the case of regular periodic distribution dates which are not of equal duration.* *N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA)*)
	(g)	Business Day Convention (for the purposes of Condition 6.3):	[Not Applicable] [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
18	Floating Periodic Distribution Provisions:		[Applicable/Not Applicable]
			(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(a)	Specified Periodic Distribution Dates:	[●]/[Not Applicable]
			(*Specified Period and Specified Periodic Distribution Dates are alternatives. If the Business Day Convention is the Floating Rate Convention, insert "Not Applicable"*)
	(b)	Specified Period:	[●]/[Not Applicable]
			(*Specified Period and Specified Periodic Distribution Dates are alternatives. A Specified Period, rather than Specified Periodic Distribution Dates, will only be relevant if the Business Day Convention is the Floating Rate Convention. Otherwise, insert "Not Applicable"*)
	(c)	Business Day Convention:	[Floating Rate Convention / Following Business Day Convention / Modified Following Business Day Convention / Preceding Business Day Convention / [*Not Applicable*]]
	(d)	Additional Business Centre(s):	[Not Applicable/*give details*]
	(e)	Manner in which the Rate(s) is/are to be determined:	[Screen Rate Determination/ISDA Determination]

(f)	Screen Rate Determination:	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
(i)	Reference Rate:	[●] month [EURIBOR / LIBID / LIBOR / LIMEAN / SHIBOR / HIBOR / SIBOR / KLIBOR / EIBOR / SAIBOR / BBSW / AUD LIBOR / JPY LIBOR / PRIBOR / CNH HIBOR / TRLIBOR or TRYLIBOR / TIBOR] is provided by [administrator legal name] [repeat as necessary]. [As at the date hereof, [[administrator legal name] [appears]/[does not appear]] [repeat as necessary] in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 (Register of administrators and benchmarks) of Regulation (EU) 2016/1011, as amended]/[As far as the Trustee is aware, as at the date hereof, the [specify benchmark] does not fall within the scope of Regulation (EU) 2016/1011, as amended] / [Not Applicable]
(ii)	Periodic Distribution Determination Date:	[●] (*Second London business day prior to the start of each Return Accumulation Period if LIBOR (other than Sterling or euro LIBOR), first day of each Return Accumulation Period if Sterling LIBOR, the second day on which the TARGET2 System is open prior to the start of each Return Accumulation Period if EURIBOR or euro LIBOR*), *second Hong Kong business day prior to the start of each Return Accumulation Period if CNH HIBOR and first Hong Kong business day of each Return Accumulation Period if the Specified Currency is Renminbi and the Reference Rate is not CNH HIBOR*
(iii)	Relevant Screen Page:	[*For example, Reuters [LIBOR01/EURIBOR01]*] (*In the case of EURIBOR, if not Reuters EURIBOR01, ensure it is a page which shows a composite rate or amend the fallback provisions appropriately*)
(iv)	Relevant Time:	[●]
(g)	ISDA Determination:	[Applicable/Not Applicable]
(i)	Floating Rate Option:	[●]
(ii)	Designated Maturity	[●]
(iii)	Reset Date	[●]
(h)	Linear Interpolation:	[Applicable/Not Applicable] [The Rate for the [long/short] [first/last] Return Accumulation Period shall be calculated using Linear Interpolation]
(i)	Margin:	[+/-][●] per cent. per annum
(j)	Day Count Fraction:	[Actual/Actual (ISDA)] [Actual/Actual]

		Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 [30/360] [360/360] [Bond Basis] [30E/360[Eurobond Basis] 30E/360 (ISDA) (*See Condition 7 for alternatives*)
	(k) Calculation Agent:	[Principal Paying Agent] [*specify other*]
19	Reset Periodic Distribution Provisions:	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a) Initial Periodic Distribution Rate:	[●] per cent. per annum [payable annually/semi-annually/ quarterly/ monthly] in arrear
	(b) First Margin:	[+/-][●] per cent. per annum
	(c) Subsequent Margin:	[+/-][●] per cent. per annum
	(d) Reset Certificate Periodic Distribution Date(s):	[●] in each year commencing on [●] up to and including the Scheduled Dissolution Date [(*For Renminbi denominated Reset Certificates where the Periodic Distribution Dates and the Periodic Distribution Amount to be paid on such Periodic Distribution Dates are subject to modification, specify a Business Day Convention in paragraph 19(h) below (which is expected to be the Modified Following Business Day Convention) and add the words ", subject to adjustment in accordance with the Business Day Convention after "Scheduled Dissolution Date" in this subparagraph (d)*)]
	(e) First Reset Certificate Reset Date:	[●]
	(f) Second Reset Certificate Reset Date:	[[●]/Not Applicable]
	(g) Subsequent Reset Certificate Reset Date:	[[●]/Not Applicable]
	(h) Business Day Convention:	[Floating Rate Convention/ Following Business Day Convention/ Modified Following Business Day Convention/Preceding Business Day Convention]
	(i) Business Centre(s):	[●]
	(j) Reset Rate:	[Mid-Swap Rate]/[Reference Certificate]
	(k) Relevant Screen Page:	[●]
	(l) Mid-Swap Floating Leg Benchmark Rate:	[EURIBOR][LIBOR][●]
	(m) Mid-Swap Maturity:	[●]
	(n) Fixed Leg Swap Duration:	[●]

(o)	Fixed Amount(s) for Certificates in definitive form (and in relation to Certificates in global form, see Conditions) to (but excluding) the First Reset Certificate Reset Date:	[[●] per Calculation Amount]
(p)	Broken Amount(s) for Certificates in definitive form (and in relation to Certificates in global form, see Conditions):	[[●] per Calculation Amount, payable on the Periodic Distribution Date falling [in/on] [●]] [Not Applicable]
(q)	Day Count Fraction:	[Actual/Actual / Actual/Actual – ISDA] [Actual/365 (Fixed)] [Actual/365 (Sterling)] [Actual/360] [30/360 / 360/360 / Bond Basis] [30E/360 / Eurobond Basis] [30E/360 (ISDA)] [Actual/Actual – ICMA]
(r)	Reset Determination Dates:	[[●] in each year/Not Applicable]
(s)	Calculation Agent:	[Principal Paying Agent] [*specify other*]
(t)	First Reset Period Fallback:	[●]

Provisions relating to Dissolution

20	Optional Dissolution (Call):	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph. N.B. For Shari'a reasons, Optional Dissolution (Call) and Certificateholder Put Option cannot both be specified as applicable for a particular Series*)
(a)	Optional Dissolution Amount (Call):	[[●] per Calculation Amount][For Tier 2 Certificates: As per Conditions]
(b)	Optional Dissolution Amount (Call) Percentage:	[[●] per cent.][For Tier 2 Certificates: 100 per cent.]
(c)	Optional Dissolution Date:	[Any Periodic Distribution Date] [*specify other*] (*N.B. If the Floating Periodic Distribution Provisions are applicable, the Optional Dissolution Date must be a Periodic Distribution Date*)
(d)	Notice periods:	Minimum period: [30] days Maximum period: [60] days [●] (*N.B. When setting notice periods, the Trustee is advised to consider the practicalities of distribution of information through intermediaries, for example clearing systems (which require a minimum of five clearing system business days' notice for a call) and custodians, as well as any other notice*

		requirements which may apply, for example, as between the Trustee and the Principal Paying Agent or Delegate)
21	Certificateholder Put Option:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph. N.B. For Shari'a reasons, Certificateholder Put Option and Optional Dissolution (Call) cannot both be specified as applicable for a particular Series*)
	(a) Optional Dissolution Amount (Certificateholder Put):	[[●] per Calculation Amount]
	(b) Optional Dissolution Amount (Certificateholder Put) Percentage:	[[●] per cent.]
	(c) Certificateholder Put Option Date(s):	[●]
	(d) Notice Periods:	Minimum period: [15] days Maximum period: [30] days [●] (*N.B. When setting notice periods, the Trustee is advised to consider the practicalities of distribution of information through intermediaries, for example clearing systems (which require a minimum of 15 clearing system business days' notice for a put) and custodians, as well as any other notice requirements which may apply, for example, as between the Trustee and the Principal Paying Agent or Delegate*)
22	Early Dissolution for Capital Disqualification Event Notice Periods:	Minimum period: [15] days Maximum period: [30] days
23	Final Dissolution Amount:	[[●] per Calculation Amount] [for Tier 2 Certificates: As per Conditions [*Note: this must be par*]]
24	Early Dissolution Amount (Tax):	[[●] per Calculation Amount] [for Tier 2 Certificates: As per Conditions [*Note: this must be par*]]
25	Dissolution Amount pursuant to Condition 16:	[[●] per Calculation Amount] [for Tier 2 Certificates: As per Conditions [*Note: this must be par*]]
26	Early Dissolution Amount (Capital Disqualification Event):	[As per Conditions]

General provisions applicable to the Certificates

27	Form of Certificates:	Global Certificate exchangeable for Certificates in definitive registered form in the limited circumstances specified in the Global Certificate
28	Additional Financial Centres:	[Not Applicable/*give details*] (*Note that this paragraph relates to the date of payment and not Return Accumulation Period end dates, to which sub-paragraph 18(d) relates*)

Third Party Information

[[*Relevant third party information*] has been extracted from [*specify source*]. Each of the Trustee and Riyad Bank confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [*specify source*], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Purpose of Pricing Supplement

This Pricing Supplement comprises the pricing supplement required for the issue [and] [admission to trading] on [*specify relevant market (for example, the International Securities Market of the London Stock Exchange)*] of the Certificates described herein pursuant to the U.S.$3,000,000,000 Trust Certificate Issuance Programme of Riyad Sukuk Limited.

Responsibility

Each of the Trustee and Riyad Bank accepts responsibility for the information contained in this Pricing Supplement. To the best of the knowledge and belief of each of the Trustee and Riyad Bank (each having taken all reasonable care to ensure that such is the case), the information contained in this Pricing Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information. [[*Relevant third party information*] has been extracted from [*specify source*]. Each of the Trustee and Riyad Bank confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [*specify source*], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of
RIYAD SUKUK LIMITED

By: …………………………………………..
Duly authorised

Signed on behalf of
RIYAD BANK

By: …………………………………………..
Duly authorised

PART B – OTHER INFORMATION

1 Listing and Admission to Trading

(i) Listing and admission to trading:	[Application has been made by the Trustee (or on its behalf) for the Certificates to be admitted to trading on the London Stock Exchange plc's International Securities Market ("**ISM**") [*or specify relevant market*] with effect from [●].The ISM is not a regulated market for the purposes of MiFID II.] [Application is expected to be made by the Trustee (or on its behalf) for the Certificates to be admitted to trading on the London Stock Exchange plc's International Securities Market ("**ISM**") [*or specify relevant market*] with effect from [●]. The ISM is not a regulated market for the purposes of MiFID II.] [Not Applicable.] (*Where documenting a fungible issue, it needs to be indicated that the original Certificates are already admitted to trading.*)
(ii) Estimate of total expenses related to admission to trading:	[●]

2 Ratings

Ratings:	Moody's Investors Service ("**Moody's**") is established in the EU and is registered under Regulation (EC) No. 1060/2009. Fitch Ratings Ltd ("**Fitch**") is established in the EU and is registered under Regulation (EC) No. 1060/2009. (*The following language should be used where the Certificates are to be rated by a credit rating agency other than the Moody's and Fitch legal entities set out above.*) [The Certificates to be issued [[have been]/[are expected to be]] rated [*insert details*] by [*insert the legal name of the relevant credit rating agency entity(ies)*].] [*Need to include a brief explanation of the meaning of the ratings if this has previously been published by the rating provider*.] (*The above disclosure should reflect the rating allocated to Certificates of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.*) [[*Insert the legal name of the relevant credit rating agency entity*] is established in the EU and is registered under Regulation (EC) No. 1060/2009 (as amended).] [[*Insert the legal name of the relevant non-EU credit rating agency entity*] is not established in the EU/UK and is not registered in accordance with Regulation (EC) No. 1060/2009 (as amended).]

[[*Insert the legal name of the relevant non-EU credit rating agency entity*] is not established in the EU/UK and has not applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**"). The ratings [[have been]/[are expected to be]] endorsed by [*insert the legal name of the relevant EU-registered credit rating agency entity*] in accordance with the CRA Regulation. [*Insert the legal name of the relevant EU-registered credit rating agency entity*] is established in the EU and registered under the CRA Regulation.]

[[*Insert the legal name of the relevant non-EU credit rating agency entity*] is not established in the EU/UK and has not applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**"), but it [is]/[has applied to be] certified in accordance with the CRA Regulation.]

[[*Insert the legal name of the relevant non-EU credit rating agency entity*] is not established in the EU/UK and has not applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**"). However, the application for registration under the CRA Regulation of [*insert the legal name of the relevant EU credit rating agency entity that applied for registration*], which is established in the EU, disclosed the intention to endorse credit ratings of [*insert the legal name of the relevant non-EU credit rating agency entity.*]]

3 Interests of Natural and Legal Persons involved in the Issue

[Save for any fees payable to the [Managers/Dealer], so far as each of the Trustee and Riyad Bank is aware, no person involved in the issue of the Certificates has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Trustee and Riyad Bank and their affiliates in the ordinary course of business – *Amend as appropriate if there are other interests*.]

4 Profit or Return (Fixed Periodic Distribution Certificates only)

Indication of profit or return:	[●] The profit or return is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future profit or return.]

5 Operational Information

(i) ISIN:	[●]
(ii) Common Code:	[●]
(iii) FISN:	[●]
(iv) CFI:	[●]

(v)	Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
(vi)	Delivery:	Delivery [against/free of] payment
(vii)	Names and addresses of additional Paying Agent(s) (if any):	[●]
(viii)	Details of Transaction Account:	Riyad Sukuk Limited Transaction Account No: [●] with [●] for Series No.: [●]

6 Distribution

(i)	Method of distribution:	[Syndicated/Non-syndicated]
(ii)	If syndicated:	
	(a) Names of Managers:	[Not Applicable/*give names*]
	(b) Stabilising Manager(s) (if any):	[Not Applicable/*give names*]
(iii)	If non-syndicated, name of relevant Dealer:	[Not Applicable/*give name*]
(iv)	U.S. Selling Restrictions:	Regulation S, Category 2
(v)	Prohibition of Sales to EEA and UK Retail Investors:	[Applicable]/[Not Applicable] (*If the Certificates clearly do not constitute "packaged" products or the Certificates do constitute "packaged" products and a key information document will be prepared, "Not Applicable" should be specified. If the Certificates may constitute "packaged" products and no key information document will be prepared, "Applicable" should be specified)*

TERMS AND CONDITIONS OF THE CERTIFICATES

*The following is the text of the terms and conditions (the "**Conditions**") that, save for the text in italics and subject to completion and amendment and as supplemented or varied in accordance with the provisions of Part A of the relevant Pricing Supplement, shall be applicable to the Certificates in definitive form (if any) issued in exchange for the Global Certificate(s) representing each Series. Either (i) the full text of these Conditions, together with the relevant provisions of Part A of the Pricing Supplement, or (ii) these Conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on the Certificates. All capitalised terms that are not defined in these Conditions will have the meanings given to them in Part A of the relevant Pricing Supplement. Those definitions will be endorsed on the definitive Certificates. References in the Conditions to "Certificates" are to the Certificates of one Series only, not to all Certificates that may be issued under the Programme.*

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

Riyad Sukuk Limited (in its capacities as issuer and trustee, the "**Trustee**") has established a programme (the "**Programme**") for the issuance of up to U.S.$3,000,000,000 in aggregate face amount of trust certificates. In these Terms and Conditions (the "**Conditions**"), references to "**Certificates**" shall be references to the trust certificates which are the subject of the applicable Pricing Supplement, and references to the "**applicable Pricing Supplement**" are to Part A of the Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on this Certificate.

Certificates issued under the Programme are issued in Series (as defined below). The applicable Pricing Supplement complete these Conditions.

In these Conditions:

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

"**Tranche**" means Certificates which are identical in all respects (including as to listing and admission to trading, if applicable); and

"**Transaction Account**" means, in relation to each Series, the non-interest bearing account maintained in London in the Trustee's name and held with the Principal Paying Agent, details of which are specified in the applicable Pricing Supplement.

The Certificates of each Series will represent an undivided ownership interest in the Trust Assets (as defined in Condition 4.1) which are held by the Trustee on trust (the "**Trust**") for, *inter alia*, the benefit of the registered holders of the Certificates pursuant to (i) a master declaration of trust (the "**Master Declaration of Trust**") dated 11 February 2020 and made between the Trustee, Riyad Bank and Citibank, N.A., London Branch (the "**Delegate**" which expression shall include any co-Delegate or any successor) and (ii) in respect of each Tranche, a supplemental declaration of trust dated the issue date (the "**Issue Date**") of such Tranche of

Certificates (the "**Supplemental Declaration of Trust**" and, together with the Master Declaration of Trust, the "**Declaration of Trust**").

Payments relating to the Certificates will be made pursuant to an agency agreement dated 11 February 2020, as amended or supplemented as at the Issue Date (the "**Agency Agreement**"), made between the Trustee, the Delegate, Riyad Bank, Citibank, N.A., London Branch in its capacities as principal paying agent (in such capacity, the "**Principal Paying Agent**", which expression shall include any successor and, together with any further or other paying agents appointed from time to time in accordance with the Agency Agreement, the "**Paying Agents**", which expression shall include any successors), transfer agent (in such capacity, the "**Transfer Agent**", which expression shall include any successor) and calculation agent (in such capacity, the "**Calculation Agent**", which expression shall include any successor) and Citigroup Global Markets Europe AG in its capacity as registrar (in such capacity, the "**Registrar**", which expression shall include any successor). The Paying Agents, the Calculation Agent and the Transfer Agents are together referred to in these Conditions as the "**Agents**".

Words and expressions defined in the Declaration of Trust and the Agency Agreement or used in the applicable Pricing Supplement shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between any such document and the applicable Pricing Supplement, the applicable Pricing Supplement will prevail. In addition, in these Conditions:

(a) subject to Condition 12, any reference to "**face amount**" or "**outstanding face amount**" shall be deemed to include the relevant Dissolution Amount (as defined in Condition 9.1), any additional amounts (other than relating to Periodic Distribution Amounts (as defined in Condition 6.2)) which may be payable under Condition 13, and any other amount in the nature of face amounts payable pursuant to these Conditions;

(b) any reference to Periodic Distribution Amounts shall be deemed to include any additional amounts in respect of profit distributions which may be payable under Condition 13 and any other amount in the nature of a profit distribution payable pursuant to these Conditions;

(c) references to Certificates being "**outstanding**" shall be construed in accordance with the Master Declaration of Trust; and

(d) any reference to a Transaction Document (as defined below) shall be construed as a reference to that Transaction Document as amended and/or supplemented from time to time.

Subject as set out below, copies of the documents set out below are available for inspection and obtainable free of charge by the Certificateholders during normal business hours (excluding Saturdays, Sundays and public holidays) at the specified office for the time being of each Paying Agent. The holders of the Certificates (the "**Certificateholders**") are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the documents set out below:

(a) the master purchase agreement between Riyad Sukuk Limited (in its capacity as Trustee and in its capacity as purchaser, the "**Purchaser**") and Riyad Bank (in its capacity as seller, the "**Seller**") dated 11 February 2020 (the "**Master Purchase Agreement**");

(b) the supplemental purchase contract (the "**Supplemental Purchase Contract**" and, together with the Master Purchase Agreement, the "**Purchase Agreement**") having the details set out in the applicable Pricing Supplement;

(c) the servicing agency agreement between the Trustee and Riyad Bank (in its capacity as servicing agent, the "**Servicing Agent**") dated 11 February 2020 (the "**Servicing Agency Agreement**");

(d) the purchase undertaking made by Riyad Bank for the benefit of the Trustee and the Delegate dated 11 February 2020 (the "**Purchase Undertaking**");

(e) the sale and substitution undertaking made by the Trustee for the benefit of Riyad Bank dated 11 February 2020 (the "**Sale and Substitution Undertaking**");

(f) the Declaration of Trust;

(g) the Agency Agreement; and

(h) the applicable Pricing Supplement.

The documents listed above are referred to in these Conditions as the "**Transaction Documents**". The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Declaration of Trust and the Agency Agreement.

Each initial Certificateholder, by its acquisition and holding of its interest in a Certificate, shall be deemed to authorise and direct Riyad Sukuk Limited, on behalf of the Certificateholders, (i) to apply the sums paid by it in respect of its Certificates to the Purchaser in accordance with the Purchase Agreement and (ii) to enter into each Transaction Document to which it is a party, subject to the provisions of the Declaration of Trust and these Conditions.

1 Form, Denomination and Title

1.1 Form and Denomination

The Certificates are issued in registered form in the Specified Denominations and, in the case of Certificates in definitive form, are serially numbered.

For so long as any of the Certificates is represented by a Global Certificate held on behalf of Euroclear Bank SA/NV ("**Euroclear**") and/or Clearstream Banking S.A. ("**Clearstream, Luxembourg**"), each person (other than another clearing system) who is for the time being shown in the records of either such clearing system as the holder of a particular face amount of such Certificates (in which regard any certificate or other document issued by a clearing system as to the face amount of such Certificates standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Trustee, the Delegate, Riyad Bank and the Agents as the holder of such face amount of such Certificates for all purposes other than with respect to payment in respect of such Certificates, for which purpose the registered holder of the Global Certificate shall be treated by the Trustee, the Delegate, Riyad Bank and any Agent as the holder of such face amount of such Certificates in accordance with and subject to the terms of the relevant Global Certificate, and the expressions "**Certificateholder**" and "**holder**" in relation to any Certificates and related expressions shall be construed accordingly.

In addition, the Certificates will provide that the rights of Certificateholders with regard to payments of principal will either be (i) unsubordinated ("**Senior Certificates**") or (ii) subordinated in the manner described under Condition 3 below with terms capable of qualifying as Tier 2 Capital (the "**Tier 2 Certificates**"). The applicable Pricing Supplement will specify whether a Series of Certificates are "**Senior Certificates**" or "**Tier 2 Certificates**".

In determining whether a particular person is entitled to a particular face amount of Certificates as aforesaid, the Delegate may rely on such evidence and/or information and/or certification as it shall, in its absolute discretion, think fit and, if it does so rely, such evidence and/or information and/or certification shall, in the absence of manifest error, be conclusive and binding on all concerned.

Each holder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the registered holder of the Global Certificate. References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in Part B of the applicable Pricing Supplement.

1.2 Register

The Registrar will maintain a register (the "**Register**") of Certificateholders in respect of the Certificates in accordance with the provisions of the Agency Agreement. In the case of Certificates in definitive form, a definitive Certificate will be issued to each Certificateholder in respect of its registered holding of Certificates.

1.3 Title

The Trustee, the Delegate, Riyad Bank and the Agents may (to the fullest extent permitted by applicable laws) deem and treat the person in whose name any outstanding Certificate is for the time being registered (as set out in the Register) as the holder of such Certificate or of a particular face amount of the Certificates for all purposes (whether or not such Certificate or face amount shall be overdue and notwithstanding any notice of ownership thereof or of trust or other interest with regard thereto, and any notice of loss or theft or any writing thereon), and the Trustee, the Delegate, Riyad Bank and the Agents shall not be affected by any notice to the contrary.

All payments made to such registered holder shall be valid and, to the extent of the sums so paid, effective to satisfy and discharge the liability for monies payable in respect of such Certificate or face amount.

2 Transfers of Certificates

2.1 Transfers of interests in the Global Certificate

Transfers of interests in the Global Certificate will be effected by Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of transferors and transferees of such interests. An interest in the Global Certificate will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Certificates in definitive form only in the Specified Denomination or integral multiples thereof and only in accordance with the rules and operating procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Declaration of Trust and the Agency Agreement.

2.2 Transfers of Certificates in definitive form

Upon the terms and subject to the conditions set forth in the Declaration of Trust and the Agency Agreement, a Certificate in definitive form may be transferred in whole or in part (in the Specified Denomination or an integral multiple thereof). In order to effect any such transfer (a) the holder or holders must (i) surrender the definitive Certificate for registration of the transfer thereof (or the relevant part thereof) at the specified office of any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (ii) complete and deposit such other certifications as may be required by the relevant Transfer Agent and (b) the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such regulations as Riyad Sukuk Limited, Riyad Bank, the Delegate and the Registrar may from time to time prescribe (the initial such regulations being scheduled to the Master Declaration of Trust).

Subject as provided above, the relevant Transfer Agent will, within five business days (being for this purpose a day on which banks are open for business in the city where the specified office of the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), deliver at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail to such address as the transferee may request a new Certificate in definitive form of a like aggregate face amount to the Certificate (or the relevant part of the Certificate) transferred. In the case of the transfer of part only of a Certificate in definitive form, a new Certificate in definitive form in respect of the balance of the Certificate not transferred will be so delivered or (at the risk of the transferor) sent to the transferor.

No Certificateholder may require the transfer of a Certificate in definitive form to be registered during the period of 15 days ending on a Periodic Distribution Date, the Scheduled Dissolution Date, a Dissolution Date or any other date on which any payment of the face amount or payment of any profit in respect of a Certificate falls due.

2.3 Costs of registration

Certificateholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Trustee may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

3 Status, Subordination and Limited Recourse

3.1 Status of the Senior Certificates

Each Senior Certificate evidences an undivided ownership interest in the Trust Assets of the relevant Series, subject to the terms of the Declaration of Trust and these Conditions, and is a direct, unsubordinated, unsecured (subject to Condition 3.7) and limited recourse obligation of the Trustee. Each Senior Certificate ranks *pari passu*, without any preference or priority, with the other Senior Certificates.

The payment obligations of Riyad Bank (in any capacity) under the Transaction Documents in respect of each Series of Senior Certificates shall, save for such exceptions as may be provided by applicable legislation and subject to the negative pledge provisions described in Condition 3.7, at all times rank at least equally with all other unsecured and unsubordinated obligations of Riyad Bank, present and future.

3.2 Status of the Tier 2 Certificates

Each Tier 2 Certificate evidences an undivided ownership interest in the Trust Assets of the relevant Series, subject to the terms of the Declaration of Trust and these Conditions, and is a direct, unsecured and limited recourse obligation of the Trustee. Each Tier 2 Certificate ranks *pari passu*, without any preference or priority, with the other Tier 2 Certificates.

3.3 Subordination of the Tier 2 Certificates

The payment obligations of Riyad Bank under the Transaction Documents to which it is a party to fund the Periodic Distribution Amounts, the Dissolution Amount and any other amounts payable under the Tier 2 Certificates of the relevant Series (together the "**Relevant Obligations**"), will constitute direct, unsecured and subordinated obligations of Riyad Bank and shall, upon the occurrence of a Winding Up Proceeding, rank:

(a) subordinate to claims in respect of Senior Obligations;

(b) at least *pari passu* with claims in respect of Parity Obligations; and

(c) in priority to claims in respect of Junior Obligations.

The Certificateholders and the Delegate (acting on behalf of the Certificateholders) irrevocably waive their rights to the extent necessary to give effect to the subordination provisions set out in this Condition 3.3.

The provisions of this Condition 3.3 apply only to the Relevant Obligations and nothing in this Condition 3.3 shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Delegate or the rights and remedies of the Delegate in respect thereof and in such capacity the Delegate shall rank as an unsubordinated creditor of Riyad Bank.

By virtue of such subordination, no amount will, if a Winding Up Proceeding occurs, be paid by Riyad Bank in respect of its obligations under the Transaction Documents in relation to the Tier 2 Certificates until all claims in respect of Senior Obligations have been satisfied.

In these Conditions:

"**Junior Obligations**" means all classes of share capital (including ordinary and preferred shares) of Riyad Bank and all its obligations which constitute, or would but for any applicable limitation on the amount of such capital constitute, Tier 1 Capital and all obligations which rank, or are expressed to rank, junior to Riyad Bank's obligations under the Transaction Documents;

"**Parity Obligations**" means any subordinated obligations of Riyad Bank which constitute, or would but for any applicable limitation on the amount of such capital constitute, Tier 2 Capital or its other payment obligations that rank, or are expressed to rank, *pari passu* with its obligations under the Transaction Documents;

"**Senior Obligations**" means all unsubordinated payment obligations of Riyad Bank (including its payment obligations to its depositors) and all its subordinated payment obligations (if any) except Parity Obligations and Junior Obligations; and

"**Winding Up Proceeding**" means an order is made by any competent court or the government of the Kingdom of Saudi Arabia or an effective resolution is passed for the winding-up, liquidation or dissolution of Riyad Bank in accordance with applicable law (except, in any such case, a solvent winding-up solely for the purposes of a reorganisation, reconstruction or amalgamation, the terms of which reorganisation, reconstruction or amalgamation have previously been approved by an Extraordinary Resolution).

3.4 No Set-off or Counterclaim

In the case of Tier 2 Certificates only, no Certificateholder may exercise or claim any right of set-off in respect of any amount owed to it by the Trustee or Riyad Bank or arising under or in connection with the Relevant Obligations and each Certificateholder, by virtue of its subscription, purchase or holding of any Tier 2 Certificates, shall be deemed to have waived all such rights of set-off to the fullest extent permitted by law.

3.5 Limited Recourse

The proceeds of the Trust Assets are the sole source of payments on the Certificates. Save as provided in the next sentence, the Certificates do not represent an interest in or obligation of any of the Trustee, Riyad Bank, the Delegate, the Agents or any of their respective affiliates. Accordingly, Certificateholders, by subscribing for or acquiring the Certificates, acknowledge that they will have no recourse to any assets of the Trustee (including, in particular, other assets comprised in other trusts, if any), Riyad Bank (to the extent that it fulfils all of its obligations under the Transaction Documents to which it is a party), the Delegate, or the Agents, or any of their respective affiliates in respect of any shortfall in the expected amounts from the Trust Assets to the extent the Trust Assets have been exhausted following which all obligations of the Trustee shall be extinguished.

Riyad Bank is obliged to make certain payments under the Transaction Documents directly to the Trustee (for and on behalf of the Certificateholders), and the Delegate will have direct recourse against Riyad Bank to recover such payments.

The net proceeds of realisation of, or enforcement with respect to, the Trust Assets may not be sufficient to make all payments due in respect of the Certificates. If, following the distribution of such proceeds, there remains a shortfall in payments due under the Certificates, subject to Condition 17, no holder of Certificates will have any claim against Riyad Sukuk Limited, Riyad Bank (to the extent that it fulfils all of its obligations under the Transaction Documents to which it is a party), the Delegate, or the Agents, or any of their respective affiliates or against any assets (other than the Trust Assets to the extent not exhausted) in respect of such shortfall and any unsatisfied claims of Certificateholders shall be extinguished. In particular, no holder of Certificates will be able to petition for, or join any other person in instituting proceedings for, the reorganisation, liquidation, winding-up or receivership of Riyad Sukuk Limited, Riyad Bank (to the extent that it fulfils all of its obligations under the Transaction Documents to which it is a party), the Delegate, the Agents or any of their respective affiliates as a consequence of such shortfall or otherwise.

3.6 Agreement of Certificateholders

By purchasing Certificates, each Certificateholder is deemed to have agreed that notwithstanding anything to the contrary contained in these Conditions or any Transaction Document:

(a) no payment of any amount whatsoever shall be made by or on behalf of Riyad Sukuk Limited (acting in any capacity) except to the extent funds are available therefor from the Trust Assets and further agrees that no recourse shall be had for the payment of any amount owing hereunder whether for the payment of any fee or other amount hereunder or any other obligation or claim arising out of or based upon any Transaction Document, against Riyad Sukuk Limited (acting in any capacity) to the extent the Trust Assets have been exhausted following which all obligations of Riyad Sukuk Limited (acting in any capacity) shall be extinguished;

(b) prior to the date which is one year and one day after the date on which all amounts owing by Riyad Sukuk Limited (acting in any capacity) under the Transaction Documents have been paid in full, it will not institute against, or join with any other person in instituting against, Riyad Sukuk Limited any bankruptcy, reorganisation, arrangement or liquidation proceedings or other proceedings under any bankruptcy or similar law; and

(c) no recourse (whether by institution or enforcement of any legal proceedings or assessment or otherwise) in respect of any breaches of any duty, obligation or undertaking of Riyad Sukuk Limited (acting in any capacity) arising under or in connection with these Conditions by virtue of any customary law, statute or otherwise shall be had against any shareholder, officer, director or corporate services provider of Riyad Sukuk Limited (acting in any capacity) in their capacity as such and any and all personal liability of every such shareholder, officer, director or corporate services provider in their capacity as such for any breaches by Riyad Sukuk Limited (acting in any capacity) of any such duty, obligation or undertaking is hereby expressly waived and excluded to the extent permitted by law.

3.7 Riyad Bank Negative Pledge

In respect of Senior Certificates only, Riyad Bank undertakes in the Purchase Undertaking that, so long as any Senior Certificate remains outstanding (as defined in the Master Declaration of Trust), it will not, and will ensure that none of its Material Subsidiaries, will create, or have outstanding, any mortgage, charge, lien, pledge or other security interest ("**Security**"), upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness or to secure any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto according to the Senior Certificates the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or such other security as either (a) the Delegate shall in its absolute discretion deem not materially less beneficial to the interest of the Certificateholders or (b) shall be approved by an Extraordinary Resolution (as defined in the Master Declaration of Trust) of the Certificateholders of the Senior Certificates.

In these Conditions:

"**Accounts**" means (in the case of Riyad Bank) its then latest audited consolidated financial statements and (in the case of the relevant Subsidiary) its then latest audited consolidated (if available) or non-consolidated financial statements, provided that, if audited financial statements for any Subsidiary have not been prepared in respect of any relevant period, "Accounts" shall, in relation to that Subsidiary, mean its management accounts for the relevant period;

"**Material Subsidiary**" means:

(a) a Subsidiary of Riyad Bank whose revenues or assets represent not less than ten per cent. of the consolidated revenues or consolidated assets of Riyad Bank, as calculated by reference to the Accounts; or

(b) to which is transferred all or substantially all of the undertaking or assets of a Subsidiary which immediately prior to such transfer is a Material Subsidiary, whereupon the transferor Subsidiary shall immediately cease to be a Material Subsidiary and the transferee Subsidiary shall immediately become a Material Subsidiary, but shall cease to be a Material Subsidiary under this paragraph (b) (but without prejudice to paragraph (a) above) upon publication of Riyad Bank's next Accounts.

A report by the Chief Financial Officer (or any person who at any time carries out the equivalent function of such person (regardless of such person's title)) of Riyad Bank that in his opinion a Subsidiary of Riyad Bank is or is not or was or was not at any particular time or throughout any specified period a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties;

"**Non-recourse Project Financing Indebtedness**" means any indebtedness incurred in connection with any financing of all or part of the costs of the acquisition, construction or development of any project, provided that (a) any Security given by Riyad Bank or the relevant Material Subsidiary, as the case may be, is limited solely to assets of the project, (b) the person providing such financing expressly agrees to limit its recourse to the project financed and the revenues derived from such project as the principal source of repayment for the monies advanced, and (c) there is no other recourse to Riyad Bank or the relevant Material Subsidiary, as the case may be, in respect of any default by any person under the financing;

"**Permitted Indebtedness**" means Non-recourse Project Financing Indebtedness and Securitisation Indebtedness;

"**Relevant Indebtedness**" means any indebtedness other than Permitted Indebtedness which is in the form of, or represented or evidenced by, bonds, notes, sukuk certificates, debentures, loan stock or other securities which for the time being are, or are intended to be or capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market;

"**Securitisation Indebtedness**" means any indebtedness incurred in connection with any securitisation of existing or future asset and/or revenues, provided that: (i) any Security given by Riyad Bank or any of its Subsidiaries in connection therewith is limited solely to the assets and/or revenues which are the subject of the securitisation; (ii) each party participating in such securitisation expressly agrees to limit its recourse to the assets and/or revenues so securitised; and (iii) there is no other recourse to Riyad Bank or the relevant Material Subsidiary, as the case may be, in respect of any default by any person under the securitisation; and

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

4 The Trust

4.1 The Trust Assets

Pursuant to the Purchase Agreement, the Seller will sell (a) on the Issue Date of the first Tranche of the relevant Series, an initial portfolio (the "**Initial Portfolio**") and (b) on the Issue Date of any further Tranche of such Series, an additional portfolio (the "**Additional Portfolio**" and, together with the Initial Portfolio and, as modified from time to time, the "**Portfolio**") of certain assets (the "**Assets**") specified in the Supplemental Purchase Contract to the Trustee and the Trustee will purchase the Initial Portfolio or the Additional Portfolio, as the case may be, using the proceeds of the issue of the relevant Tranche of Certificates. The Trustee has entered into the Servicing Agency Agreement with the Servicing Agent as servicing agent of the Portfolio.

Riyad Bank has entered into the Purchase Undertaking in favour of the Trustee and the Delegate to purchase all of the Trustee's rights, title, interests, benefits and entitlements in, to and under the Portfolio on the Scheduled Dissolution Date at the Final Dissolution Amount or, if earlier, on the due date for dissolution determined in accordance with Condition 16 at the Dissolution Amount specified in the applicable Pricing Supplement. If Certificateholder Put Option is specified in the applicable Pricing Supplement as being applicable, the Purchase Undertaking may also be exercised ahead of a Certificateholder Put Option Date (as specified in the applicable Pricing Supplement) to fund the relevant Certificates being redeemed under Condition 11.5 through the purchase by Riyad Bank of the Trustee's rights, title, interests, benefits and entitlements in, to and under a portion of the Portfolio with an aggregate Value (as defined in the Servicing Agency Agreement) no greater than the aggregate face amount of such Certificates being redeemed.

Pursuant to the Sale and Substitution Undertaking, subject to the Trustee being entitled to redeem the Certificates early pursuant to Condition 11.2, Riyad Bank may, by exercising its option under the Sale and Substitution Undertaking and serving notice on the Trustee no later than 60 days prior to the Tax Event Dissolution Date (as defined in Condition 11.2), oblige the Trustee to sell all of its rights, title, interests, benefits and entitlements in, to and under the Portfolio on the Tax Event Dissolution Date at the Early Dissolution Amount (Tax). Subject to the Trustee being entitled to redeem the Certificates early pursuant to Condition 11.3, Riyad Bank may, by exercising its option under the Sale and Substitution Undertaking and serving notice on the Trustee no later than 45 days prior to the Capital Disqualification Event Dissolution Date (as defined in Condition 11.3), oblige the Trustee to sell all of its rights, title, interests, benefits and entitlements in, to and under the Portfolio on the Capital Disqualification Event Dissolution Date at the Early Dissolution Amount (Capital Disqualification Event). If the Optional Dissolution (Call) is specified in the applicable Pricing Supplement as being applicable, Riyad Bank may, by exercising its option under the Sale and Substitution Undertaking and serving notice on the Trustee no later than 60 days prior to the Optional Dissolution Date, oblige the Trustee to sell all of its rights, title, interests, benefits and entitlements in, to and under the Portfolio on the Optional Dissolution Date.

Following any purchase of Certificates by or on behalf of Riyad Bank or any of its Subsidiaries (as defined in Condition 3.7) pursuant to Condition 15, the Sale and Substitution Undertaking may also be exercised in respect of the transfer to Riyad Bank of an ownership interest (a "**Cancellation Interest**") in the Portfolio with an aggregate Value no greater than the aggregate face amount of the Certificates so purchased against cancellation of such Certificates by the Principal Paying Agent. The Cancellation Interest will be calculated as the ratio, expressed as a percentage, of the aggregate outstanding face amount of the relevant Certificates to be cancelled to the aggregate face amount of the Certificates outstanding immediately prior to the cancellation of such Certificates.

Pursuant to the Declaration of Trust, the Trustee holds the Trust Assets upon trust absolutely for the holders of the Certificates *pro rata* according to the face amount of Certificates held by each holder. The term "**Trust Assets**" means:

(a) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the Assets from time to time constituting the Portfolio;

(b) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than (i) in relation to any representations given to the Trustee by Riyad Bank pursuant to any of the Transaction Documents and any rights which have been expressly waived by the Trustee in any of the Transaction Documents and (ii) the covenant given to the Trustee pursuant to clause 13.1 of the Master Declaration of Trust); and

(c) all monies standing to the credit of the Transaction Account from time to time, and all proceeds of the foregoing.

4.2 Application of Proceeds from the Trust Assets

On each Periodic Distribution Date and on the Scheduled Dissolution Date or any earlier Dissolution Date, the monies standing to the credit of the Transaction Account shall be applied in the following order of priority:

(i) *first*, to the Delegate in respect of all amounts owing to it under the Transaction Documents in its capacity as Delegate;

(ii) *secondly*, to the Principal Paying Agent for application in or towards payment *pari passu* and rateably of all Periodic Distribution Amounts due and unpaid;

(iii) *thirdly,* only if such payment is made on the Scheduled Dissolution Date or a Dissolution Date, to the Principal Paying Agent for application in or towards payment *pari passu* and rateably of the relevant Dissolution Amount;

(iv) *fourthly*, only if such payment is made on the Scheduled Dissolution Date or the final Dissolution Date, to the Servicing Agent to repay any amounts advanced by way of a Liquidity Facility (as defined in the Servicing Agency Agreement);

(v) *fifthly*, only if such payment is made on the Scheduled Dissolution Date or the final Dissolution Date, to the Servicing Agent in or towards payment of any outstanding Service Agency Liabilities Amounts (as defined in the Servicing Agency Agreement); and

(vi) *sixthly*, only after all necessary payments above have been made in full, to Riyad Bank.

5 Covenants

The Trustee covenants that, for so long as any Certificate is outstanding, it will not (without the prior written consent of the Delegate):

(a) incur any indebtedness in respect of borrowed money whatsoever (whether structured in accordance with the principles of *Shari'a* or otherwise), or give any guarantee or indemnity in respect of any obligation of any person or issue any shares (or rights, warrants or options in respect of shares or securities convertible into or exchangeable for shares) or any other certificates except, in all cases, as contemplated in the Transaction Documents;

(b) grant, or permit to be outstanding, any lien, pledge, charge or other security interest upon any of its present or future assets, properties or revenues (other than those arising by operation of law);

(c) sell, lease, transfer, assign, participate, exchange or otherwise dispose of, or pledge, mortgage, hypothecate or otherwise encumber (by security interest, lien (statutory or otherwise), preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever or otherwise) (or permit such to occur or suffer such to exist), any part of its ownership interest in any of the Trust Assets except pursuant to the Transaction Documents;

(d) use the proceeds of the issue of the Certificates for any purpose other than as stated in the Transaction Documents;

(e) amend or agree to any amendment of any Transaction Document to which it is a party (other than in accordance with the terms thereof);

(f) act as trustee in respect of any trust other than a trust corresponding to any other Series issued under the Programme;

(g) have any subsidiaries or employees;

(h) redeem or purchase any of its shares or pay any dividend or make any other distribution to its shareholders;

(i) prior to the date which is one year and one day after the date on which all amounts owing by the Trustee under the Transaction Documents to which it is a party have been paid in full, put to its directors or shareholders any resolution for, or appoint any liquidator for, its winding up or any resolution for the commencement of any other bankruptcy or insolvency proceeding with respect to it; or

(j) enter into any contract, transaction, amendment, obligation or liability other than the Transaction Documents to which it is a party or any permitted amendment or supplement thereto or as expressly permitted or required thereunder or engage in any business or activity other than:

    (i) as provided for or permitted in the Transaction Documents;

    (ii) the ownership, management and disposal of Trust Assets as provided in the Transaction Documents; and

    (iii) such other matters which are incidental thereto.

6 Fixed Periodic Distribution Provisions

6.1 Application

This Condition is applicable to the Certificates only if the Fixed Periodic Distribution Provisions are specified in the applicable Pricing Supplement as being applicable. The Certificates in relation to which this Condition 6.1 is applicable shall bear profit on their outstanding face amount and (in relation to Tier 2 Certificates only) shall be subject to Condition 12.

6.2 Periodic Distribution Amount

Subject to Condition 4.2, Condition 9 and (in relation to Tier 2 Certificates only) Condition 12, the Principal Paying Agent shall distribute to the holders *pro rata* to their respective holdings, out of amounts transferred to the Transaction Account, a distribution in relation to the Certificates on each Periodic Distribution Date equal to the Periodic Distribution Amount payable in respect of the Return Accumulation Period ending immediately before that Periodic Distribution Date.

In these Conditions:

"**Periodic Distribution Amount**" means, in relation to a Certificate and a Return Accumulation Period, the amount of profit distribution payable in respect of that Certificate for that Return Accumulation Period which amount may be a Fixed Amount, a Broken Amount or an amount otherwise calculated in accordance with this Condition 6, Condition 7 or Condition 8 and (in relation to Tier 2 Certificates only) Condition 12; and

"**Return Accumulation Period**" means the period from (and including) a Periodic Distribution Date (or the Return Accrual Commencement Date) to (but excluding) the next (or first) Periodic Distribution Date.

6.3 Determination of Periodic Distribution Amount

Except as provided in the applicable Pricing Supplement and (in relation to Tier 2 Certificates only) Condition 12, the Periodic Distribution Amount payable in respect of each Certificate in definitive form for any Return Accumulation Period shall be the Fixed Amount or, if so specified in the applicable Pricing Supplement, the Broken Amount so specified.

In the case of a Certificate where the Specified Currency is Renminbi and the applicable Pricing Supplement specifies a Business Day Convention to be applicable (an "**Adjusted Renminbi Fixed Periodic Distribution Certificate**"), each Periodic Distribution Date (and, accordingly, the relevant Return Accumulation Period) will be adjusted (if required) in accordance with the relevant Business Day Convention. For this purpose, the provisions relating to the application of a Business Day Convention set out in Condition 7.2 below shall apply to this Condition 6, *mutatis mutandis*.

Except in the case of Certificates in definitive form where a Fixed Amount or Broken Amount is specified in the applicable Pricing Supplement, the Periodic Distribution Amount payable in respect of each Certificate shall be calculated by applying the rate or rates (expressed as a percentage per annum) specified in the applicable Pricing Supplement or calculated or determined in accordance with the provisions of these Conditions and/or the applicable Pricing Supplement (the "**Rate**") applicable to the relevant Return Accumulation Period to:

(a) in the case of Certificates which are represented by a Global Certificate, the aggregate outstanding face amount of the Certificates represented by such Global Certificate; or

(b) in the case of Certificates in definitive form, the Calculation Amount, and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Certificate in definitive form is a multiple of the Calculation Amount, the amount of profit distribution payable in respect of such Certificate shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

"**Day Count Fraction**" means, in respect of the calculation of Periodic Distribution Amount in accordance with this Condition:

(a) if "**Actual/Actual (ICMA)**" is specified in the applicable Pricing Supplement:

   (i) in the case of Certificates where the number of days in the relevant period from (and including) the most recent Periodic Distribution Date (or, if none, the Return Accrual Commencement Date) to (but excluding) the relevant payment date (the "**Accrual Period**") is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (A) the number of days in such Determination Period and (B) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; or

   (ii) in the case of Certificates where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

      (A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

      (B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(b) if "**30/360**" is specified in the applicable Pricing Supplement, the number of days in the period from (and including) the most recent Periodic Distribution Date (or, if none, the Return Accrual Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In these Conditions:

"**Calculation Amount**" has the meaning given to it in the applicable Pricing Supplement, provided that, if the outstanding face amount of each Certificate is amended in accordance with the Conditions or as otherwise required by then current legislation and/or regulations applicable to Riyad Bank, the Calculation Agent shall (a) adjust the Calculation Amount on a *pro rata* basis to account for such amendment, as the case may be and (b) notify the holders in accordance with Condition 19 of the details of such adjustment.

"**Determination Period**" means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Return Accrual Commencement Date or the final Periodic Distribution Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

"**sub-unit**" means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent and, with respect to Renminbi, means CNY 0.01.

6.4 Cessation of Profit Entitlement

No further amounts will be payable on any Certificate from and including the Scheduled Dissolution Date or, as the case may be, the relevant Dissolution Date, as a result of the failure of Riyad Bank to pay the relevant Exercise Price and enter into a sale agreement in accordance with the terms of the Purchase Undertaking or the Sale and Substitution Undertaking, as the case may be, unless default is made in the payment of the relevant Dissolution Amount in which case Periodic Distribution Amounts will continue to accrue in respect of the Certificates in the manner provided in this Condition.

7 Floating Periodic Distribution Provisions

7.1 Application

This Condition (save for Condition 7.11 which is applicable also to Certificates if the Reset Periodic Distribution Provisions are specified in the applicable Pricing Supplement as being applicable) is applicable to the Certificates only if the Floating Periodic Distribution Provisions are specified in the applicable Pricing Supplement as being applicable. The Certificates in relation to which this Condition 7.1 is applicable shall bear profit on their outstanding face amount at the rates per annum determined in accordance with this Condition 7 and (in relation to Tier 2 Certificates only) shall be subject to Condition 12.

7.2 Periodic Distribution Amount

Subject to Condition 4.2, 7.11 and (in relation to Tier 2 Certificates only) Condition 12, the Principal Paying Agent shall distribute to holders *pro rata* to their respective holdings, out of amounts transferred to the Transaction Account, a distribution in relation to the Certificates on either:

(a) the Specified Periodic Distribution Date(s) in each year specified in the applicable Pricing Supplement; or

(b) if no Specified Periodic Distribution Date(s) is/are specified in the applicable Pricing Supplement, each date (each such date, together with each Specified Periodic Distribution Date, a "**Periodic Distribution Date**") which falls the number of months or other period specified as the Specified Period in the applicable Pricing Supplement after the preceding Periodic Distribution Date or, in the case of the first Periodic Distribution Date, after the Return Accrual Commencement Date.

In relation to each Periodic Distribution Date, the distribution payable will be equal to the Periodic Distribution Amount payable in respect of the Return Accumulation Period ending immediately before that Periodic Distribution Date.

If a Business Day Convention is specified in the applicable Pricing Supplement and (i) if there is no numerically corresponding day in the calendar month in which a Periodic Distribution Date should occur or (ii) if any Periodic Distribution Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

(A) in any case where Specified Periods are specified in accordance with Condition 7.2(a), the Floating Rate Convention, such Periodic Distribution Date (a) in the case of (i) above, shall be the last day that is a Business Day in the relevant month and the provisions of (b) below shall apply *mutatis mutandis* or (b) in the case of (ii) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (i) such Periodic Distribution Date shall be brought forward to the immediately preceding Business Day and (ii) each subsequent Periodic Distribution Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Periodic Distribution Date occurred; or

(B) the Following Business Day Convention, such Periodic Distribution Date shall be postponed to the next day which is a Business Day; or

(C) the Modified Following Business Day Convention, such Periodic Distribution Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Periodic Distribution Date shall be brought forward to the immediately preceding Business Day; or

(D) the Preceding Business Day Convention, such Periodic Distribution Date shall be brought forward to the immediately preceding Business Day.

In these Conditions:

"**Business Day**" means:

(a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and any Additional Business Centre (other than TARGET2 System) specified in the applicable Pricing Supplement;

(b) if TARGET2 System is specified as an Additional Business Centre in the applicable Pricing Supplement, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the "**TARGET2 System**") is open ("**TARGET Settlement Day**");

(c) either (i) in relation to any sum payable in a Specified Currency other than euro or Renminbi, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and any Additional Business Centre and which if the specified currency is Australian dollars or New Zealand dollars shall be Melbourne and Wellington, respectively), (ii) in relation to any sum payable in euro, a TARGET Settlement Day or (iii) in relation to any sum payable in Renminbi, a day (other than a Saturday, Sunday or public holiday) on which commercial banks in Hong Kong are generally open for business and settlement of Renminbi payments in Hong Kong; and

(d) for the purposes of Condition 12 only, a day on which commercial banks are open for general business in the Kingdom of Saudi Arabia.

7.3 Determination of Rate for Floating Rate Certificates

Subject to Condition 7.11, the Rate in respect of the Floating Rate Certificates for each Return Accumulation Period shall be determined in the manner specified in the applicable Pricing Supplement and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the applicable Pricing Supplement.

(a) ISDA Determination for Floating Rate Certificates

Where ISDA Determination is specified in the applicable Pricing Supplement as the manner in which the Rate is to be determined, the Rate for each Return Accumulation Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate plus or minus (as specified in the applicable Pricing Supplement) the Margin (if any).

In these Conditions:

"**ISDA Definitions**" means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified in the applicable Pricing Supplement; and

"**ISDA Rate**" means, for a Return Accumulation Period, a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(a) the Floating Rate Option is as specified in the applicable Pricing Supplement;

(b) the Designated Maturity is a period specified in the applicable Pricing Supplement; and

(c) the relevant Reset Date is the first day of that Return Accumulation Period unless otherwise specified in the applicable Pricing Supplement;

"**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**", "**Reset Date**" and "**Swap Transaction**" have the meanings given to those terms in the ISDA Definitions; and

"**Rate**" means the rate or rates (expressed as a percentage per annum) specified in the applicable Pricing Supplement or calculated or determined in accordance with the provisions of these Conditions and/or the applicable Pricing Supplement.

(b) Screen Rate Determination for Floating Rate Certificates

If Screen Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate is to be determined, the Rate applicable to the Certificates for each Return Accumulation Period will be determined by the Calculation Agent on the following basis:

(i) if the Reference Rate specified in the applicable Pricing Supplement is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Periodic Distribution Determination Date;

(ii) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Periodic Distribution Determination Date;

(iii) if, in the case of (i) above, such rate does not appear on that page or, in the case of (ii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable (save where Condition 7.11 applies), the Calculation Agent will:

(A) request each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Periodic Distribution Determination Date to prime banks in the London or Eurozone interbank market, as the case may be, in an amount that is representative for a single transaction in that market at that time; and

(B) determine the arithmetic mean of such quotations; and

(i) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates quoted by major banks in the principal financial centre of the Specified Currency, selected by the Riyad Bank, at approximately 11.00 a.m. (local time in the principal financial centre of the Specified Currency) on the first day of the relevant Return Accumulation Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Return Accumulation Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate for such Return Accumulation Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined, provided, however, that, if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Return Accumulation Period, the Rate applicable to the Certificates during such Return Accumulation Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Certificates in respect of a preceding Return Accumulation Period.

For the avoidance of doubt, the Calculation Agent shall not be responsible to the Trustee, Riyad Bank, the Certificateholders or any third party as a result of the Calculation Agent having relied upon any quotation, ration or other information provided to it by any person for the purposes of making any determination hereunder, which subsequently may be found to be incorrect or inaccurate in any way.

In these Conditions, the following expressions have the following meanings:

"**Reference Banks**" means, in the case of a determination of a Reference Rate other than CNH HIBOR, the principal London office of each of four major banks engaged in the inter-bank market relating to the Specified Currency and, in the case of a determination of CNH HIBOR, the principal Hong Kong office of each of four major banks dealing in CNY in the Hong Kong inter-bank market, in each case selected by or on behalf of Riyad Bank, provided that, once a Reference Bank has first been selected by or on behalf of Riyad Bank, such Reference Bank shall not be changed unless it ceases to be capable of acting as such;

"**Reference Rate**" means one of the following benchmark rates (as specified in the applicable Pricing Supplement) in respect of the currency and period specified in the applicable Pricing Supplement:

(a) Euro interbank offered rate ("**EURIBOR**");

(b) London interbank bid rate ("**LIBID**");

(c) London interbank offered rate ("**LIBOR**");

(d) London interbank mean rate ("**LIMEAN**");

(e) Shanghai interbank offered rate ("**SHIBOR**");

(f) Hong Kong interbank offered rate ("**HIBOR**");

(g) Singapore interbank offered rate ("**SIBOR**");

(h) Kuala Lumpur interbank offered rate ("**KLIBOR**");

(i) Emirates interbank offered rate ("**EIBOR**");

(j) Saudi Arabia interbank offered rate ("**SAIBOR**");

(k) Bank Bill Swap Rate ("**BBSW**");

(l) Australian dollar LIBOR ("**AUD LIBOR**");

(m) Japanese Yen LIBOR ("**JPY LIBOR**");

(n) Prague interbank offered rate ("**PRIBOR**");

(o) CNH Hong Kong interbank offered rate ("**CNH HIBOR**");

(p) Turkish Lira interbank offered rate ("**TRLIBOR**" or "**TRYLIBOR**"); and

(q) Tokyo interbank offered rate ("**TIBOR**");

"**Relevant Screen Page**" means the page, section or other part of a particular information service specified as the Relevant Screen Page in the applicable Pricing Supplement, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate; and

"**Relevant Time**" means: (a) 11.00 a.m. (London time, in the case of a determination of LIBOR, LIMEAN, LIBID, AUD LIBOR, JPY LIBOR, Brussels time, in the case of a determination of EURIBOR, Shanghai time, in the case of a determination of SHIBOR, Hong Kong time, in the case of a determination of HIBOR, Singapore time, in the case of a determination of SIBOR, Kuala Lumpur time, in the case of a determination of KLIBOR, Dubai time, in the case of a determination of EIBOR, Riyadh time, in the case of a determination of SAIBOR, Sydney time, in the case of a determination of BBSW, Prague time, in the case of a determination of PRIBOR, Istanbul time, in the case of a determination of TRLIBOR or TRYLIBOR, or Tokyo time, in the case of a determination of TIBOR); or (b) in the case of a determination of CNH HIBOR, 11.15 a.m. Hong Kong time, or if, at or around that time it is notified that the fixing will be published at 2.30 p.m., then 2.30 p.m. Hong Kong time.

7.4 Linear Interpolation

Where Linear Interpolation is specified in the applicable Pricing Supplement in respect of a Return Accumulation Period, the Rate for such Return Accumulation Period shall be calculated by the Calculation Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified in the applicable Pricing Supplement) or the relevant Floating Rate Option (where ISDA Determination is specified in the applicable Pricing Supplement), one of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next shorter than the length of the relevant Return Accumulation Period and the other of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next longer than the length of the relevant Return Accumulation Period, provided, however, that, if there is no rate available for the period of time next shorter or, as the case may be, next longer, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

7.5 Cessation of Profit Entitlement

No further amounts will be payable on any Certificate from and including the Scheduled Dissolution Date or, as the case may be, the relevant Dissolution Date, as a result of the failure of Riyad Bank to pay the relevant Exercise Price and enter into a sale agreement in accordance with the terms of the Purchase Undertaking or the Sale and Substitution Undertaking, as the case may be, unless default is made in the payment of the relevant Dissolution Amount in which case Periodic Distribution Amounts will continue to accrue in respect of the Certificates in the manner provided in this Condition provided that, in respect of such accrual, no sale agreement has been executed in accordance with the terms of the Purchase Undertaking or the Sale and Substitution Undertaking.

7.6 Calculation of Periodic Distribution Amount

The Calculation Agent will, as soon as practicable after the time at which the Rate is to be determined in relation to each Return Accumulation Period, calculate the Periodic Distribution Amount payable in respect of each Certificate for such Return Accumulation Period. The Periodic Distribution Amount will be calculated by applying the Rate applicable to the relevant Return Accumulation Period to:

(a) in the case of Certificates which are represented by a Global Certificate, the aggregate outstanding face amount of the Certificates represented by such Global Certificate; or

(b) in the case of Certificates in definitive form, the Calculation Amount,

and, in each case, multiplying the product by the relevant Day Count Fraction and rounding the resultant figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards). Where the Specified Denomination of a Certificate in definitive form is a multiple of the Calculation Amount, the Periodic Distribution Amount payable in respect of such Certificate shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

"**Day Count Fraction**" means, in respect of the calculation of a Periodic Distribution Amount in accordance with this Condition:

(a) if "**Actual/Actual (ISDA)**" or "**Actual/Actual**" is specified in the applicable Pricing Supplement, the actual number of days in the Return Accumulation Period divided by 365 (or, if any portion of that Return Accumulation Period falls in a leap year, the sum of (i) the actual number of days in that portion of the Return Accumulation Period falling in a leap year divided by 366 and (ii) the actual number of days in that portion of the Return Accumulation Period falling in a non-leap year divided by 365);

(b) if "**Actual/365 (Fixed)**" is specified in the applicable Pricing Supplement, the actual number of days in the Return Accumulation Period divided by 365;

(c) if "**Actual/365 (Sterling)**" is specified in the applicable Pricing Supplement, the actual number of days in the Return Accumulation Period divided by 365 or, in the case of a Periodic Distribution Date falling in a leap year, 366;

(d) if "**Actual/360**" is specified in the applicable Pricing Supplement, the actual number of days in the Return Accumulation Period divided by 360; or

(e) if "**30/360**" "**360/360**" or "**Bond Basis**" is specified in the applicable Pricing Supplement, the number of days in the Return Accumulation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Return Accumulation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day of the Return Accumulation Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Return Accumulation Period falls;

"**M_2**" is the calendar month, expressed as a number, in which the day immediately following the last day of the Return Accumulation Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Return Accumulation Period, unless such number is 31, in which case D_1 will be 30; and

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Return Accumulation Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

(f) if "**30E/360**" or "**Eurobond Basis**" is specified in the applicable Pricing Supplement, the number of days in the Return Accumulation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y_1**" is the year, expressed as a number, in which the first day of the Return Accumulation Period falls;

"**Y_2**" is the year, expressed as a number, in which the day immediately following the last day of the Return Accumulation Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Return Accumulation Period falls;

"**M_2**" is the calendar month, expressed as a number, in which the day immediately following the last day of the Return Accumulation Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Return Accumulation Period, unless such number would be 31, in which case D_1 will be 30; and

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Return Accumulation Period, unless such number would be 31, in which case D_2 will be 30;

(g) if "**30E/360 (ISDA)**" is specified in the applicable Pricing Supplement, the number of days in the Return Accumulation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y_1**" is the year, expressed as a number, in which the first day of the Return Accumulation Period falls;

"**Y_2**" is the year, expressed as a number, in which the day immediately following the last day of the Return Accumulation Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Return Accumulation Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Return Accumulation Period falls;

"D_1" is the first calendar day, expressed as a number, of the Return Accumulation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Return Accumulation Period, unless (i) that day is the last day of February but not the Scheduled Dissolution Date or (ii) such number would be 31, in which case D_2 will be 30.

7.7 Calculation of Other Amounts

If the applicable Pricing Supplement specifies that any other amount is to be calculated by the Calculation Agent, subject in all cases to the Calculation Agent having agreed in writing prior to the date of the applicable Pricing Supplement to calculate such amounts, the Calculation Agent will, as soon as reasonably practicable after the time or times at which any such amount is to be determined, calculate the relevant amount.

7.8 Publication

The Calculation Agent will cause each Rate and Periodic Distribution Amount determined by it, together with the relevant Periodic Distribution Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Trustee, Riyad Bank, the Delegate, the Paying Agents as soon as reasonably practicable after such determination but (in the case of each Rate, Periodic Distribution Amount and Periodic Distribution Date) in any event not later than the fourth day of the relevant Return Accumulation Period. Notice thereof shall also promptly be given to the Certificateholders. To the extent that the Calculation Agent is required to recalculate any Periodic Distribution Amount (on the basis of the foregoing provisions) in the event of an extension or shortening of the relevant Return Accumulation Period, such recalculation will be notified to the Trustee, Riyad Bank, the Delegate, the Paying Agents and the Certificateholders as soon as reasonably practicable after such determination.

7.9 Notifications, etc. to be final

All communications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition by the Calculation Agent will (in the absence of wilful default, fraud or manifest or proven error) be binding on the Trustee, the Delegate, Riyad Bank, the Agents and all Certificateholders and (save in the absence of wilful default or fraud) no liability shall attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions under this Condition.

7.10 Determination by another agent

The Trustee shall, if the Calculation Agent defaults at any time in its obligation to determine any Rate, Periodic Distribution Amount and/or Periodic Distribution Date in accordance with the above provisions and/or any other amount under Condition 7.6, appoint another agent to determine the relevant Rate, Periodic Distribution Amount, other amount under Condition 7.6 and/or Periodic Distribution Date, the former at such rate as, in its absolute discretion (having such regard as it shall think fit to the procedure described above), it shall deem fair and reasonable in all the circumstances and the Periodic Distribution Amount and the Periodic Distribution Date in the manner provided in this Condition and the determinations shall be deemed to be determinations by the Calculation Agent.

7.11 Benchmark Discontinuation

(a) Independent Adviser

If a Benchmark Event occurs in relation to an Original Reference Rate when any Rate (or any component part thereof) remains to be determined by reference to such Original Reference Rate, the Trustee or Riyad Bank, as the case may be, shall use its reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, to advise the Trustee or Riyad Bank, as the case may be, in determining a Successor Rate, failing which an Alternative Rate (in accordance with Condition 7.11(b)) and, in either case, an Adjustment Spread, if any, (in accordance with Condition 7.11(c)) and any Benchmark Amendments (in accordance with Condition 7.11(d)).

In making such determination, the Trustee or Riyad Bank, as the case may be, shall act in good faith as an expert and (in the absence of wilful default or fraud) shall have no liability whatsoever to the Trustee, Riyad Bank, the Delegate, the Paying Agents, or the Certificateholders for any determination made by it or for any advice given to the Trustee or Riyad Bank, as the case may be, in connection with any determination made by the Trustee or Riyad Bank, as the case may be, pursuant to this Condition 7.11.

If (i) the Trustee or Riyad Bank, as the case may be, is unable to appoint an Independent Adviser; or (ii) the Trustee or Riyad Bank, as the case may be, fails to determine a Successor Rate or, failing which, an Alternative Rate in accordance with this Condition 7.11(a) prior to the date that is 10 Business Days prior to the relevant Periodic Distribution Determination Date, the Rate applicable to the next succeeding Return Accumulation Period shall be equal to the Rate last determined in relation to the Certificates in respect of the immediately preceding Return Accumulation Period. If there has not been a first Periodic Distribution Date, the Rate shall be the initial Rate. Where a different Margin is to be applied to the relevant Return Accumulation Period from that which applied to the last preceding Return Accumulation Period, the Margin relating to the relevant Return Accumulation Period shall be substituted in place of the Margin relating to that last preceding Return Accumulation Period. For the avoidance of doubt, this paragraph shall apply to the relevant next succeeding Return Accumulation Period only and any subsequent Return Accumulation Periods are subject to the subsequent operation of, and to adjustment as provided in, the first paragraph of this Condition 7.11(a).

(b) Successor Rate or Alternative Rate

If the Trustee or Riyad Bank, as the case may be, following consultation with the Independent Adviser and acting in good faith, determines that:

(a) there is a Successor Rate, then such Successor Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate (or the relevant component part thereof) for all future payments of profit on the Certificates (subject to the operation of this Condition 7.11); or

(b) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate (or the relevant component part thereof) for all future payments of profit on the Certificates (subject to the operation of this Condition 7.11).

(c) Adjustment Spread

The Adjustment Spread (or the formula or methodology for determining the Adjustment Spread) shall be applied to the Successor Rate or the Alternative Rate (as the case may be). If the Trustee or Riyad Bank, as the case may be, following consultation with the Independent Adviser and acting in good faith, is unable to determine the quantum of, or a formula or methodology for determining, such Adjustment Spread, then the Successor Rate or Alternative Rate (as applicable) will apply without an Adjustment Spread.

(d) Benchmark Amendments

If any Successor Rate or Alternative Rate and, in either case, the applicable Adjustment Spread is determined in accordance with this Condition 7.11 and the Trustee or Riyad Bank, as the case may be, following consultation with the Independent Adviser and acting in good faith, determines (i) that amendments to these Conditions, the Agency Agreement and/or the Master Declaration of Trust are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and/or (in either case) the applicable Adjustment Spread (such amendments the "**Benchmark Amendments**") and (ii) the terms of the Benchmark Amendments, then the Trustee or Riyad Bank, as the case may be, shall, subject to giving notice thereof in accordance with Condition 7.11(e), without any requirement for the consent or approval of Certificateholders, vary these Conditions, the Agency Agreement and/or the Master Declaration of Trust to give effect to such Benchmark Amendments with effect from the date specified in such notice.

At the request of the Trustee or Riyad Bank, as the case may be, but subject to receipt by the Delegate of a certificate signed by two Directors of the Trustee or Riyad Bank, as the case may be, pursuant to Condition 7.11(e), the Delegate shall (at the expense of the Trustee or Riyad Bank, as applicable), without any requirement for the consent or approval of the Certificateholders, be obliged to concur with the Trustee or Riyad Bank, as the case may be, in effecting any Benchmark Amendments (including, *inter alia*, by the execution of a deed supplemental to or amending the Master Declaration of Trust), provided that the Delegate shall not be obliged so to concur if in the opinion of the Delegate doing so would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the protective provisions afforded to the Delegate in these Conditions or the Master Declaration of Trust in any way.

Notwithstanding any other provision of this Condition 7.11, none of the Agents are obliged to concur with the Trustee and/or Riyad Bank or the Independent Adviser in respect of any changes or amendments as contemplated under this Condition 7.11 to which, in the sole opinion of the relevant Agent, would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the protective provisions afforded to such Agent in the Agency Agreement and/or these Conditions.

In connection with any such variation in accordance with this Condition 7.11(d), the Trustee or Riyad Bank, as the case may be, shall comply with the rules of any stock exchange on which the Certificates are for the time being listed or admitted to trading.

Notwithstanding any other provision in this Condition, no Successor Rate, Alternative Rate or Adjustment Spread will be adopted, nor will any other amendment to the terms and conditions of any Series of Tier 2 Certificates be made to effect the Benchmark Amendments, if and to the extent that, in the determination of the Trustee or Riyad Bank, as the case may be, the same could reasonably be expected to prejudice the qualification of the relevant Series of Tier 2 Certificates as Tier 2 Capital.

(e) Notices, etc.

Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments determined under this Condition 7.11 will be notified at least 10 Business Days prior to the relevant Periodic Distribution Date by the Trustee or Riyad Bank, as the case may be, to the Delegate, the Calculation Agent and the Paying Agents. In accordance with Condition 19, notice shall be provided to the Certificateholders thereafter. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Certificateholders of the same, the Trustee or Riyad Bank, as the case may be, shall deliver to the Delegate, the Calculation Agent and the Paying Agents a certificate signed by two Directors of the Trustee or Riyad Bank, as the case may be:

(a) confirming (A) that a Benchmark Event has occurred, (B) the Successor Rate or, as the case may be, the Alternative Rate, (C) the applicable Adjustment Spread and (D) the specific terms of the Benchmark Amendments (if any), in each case, as determined in accordance with the provisions of this Condition 7.11; and

(b) certifying that the Benchmark Amendments (if any) are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and (in either case) the applicable Adjustment Spread.

Each of the Delegate, the Calculation Agent and the Paying Agents shall be entitled to rely on such certificate (without further enquiry and without liability to any person) as sufficient evidence thereof. The Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error or bad faith in the determination of the Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) and without prejudice to the Delegate's, the Calculation Agent's or the Paying Agents' ability to rely on such certificate as aforesaid) be binding on the Trustee, Riyad Bank, the Delegate, the Calculation Agent, the Paying Agents and the Certificateholders.

(f) Survival of Original Reference Rate

Without prejudice to the obligations of the Trustee and Riyad Bank under Conditions 7.11(a), 7.11(b), 7.11(c) and 7.11(d), the Original Reference Rate and the provisions provided for in Condition 7.3 and Condition 8 will continue to apply unless and until a Benchmark Event has occurred.

(g) Definitions

As used in this Condition 7:

"**Adjustment Spread**" means either (a) a spread (which may be positive, negative or zero) or (b) a formula or methodology for calculating a spread, in each case to be applied to the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

(a) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or (if no such recommendation has been made, or in the case of an Alternative Rate)

(b) the Trustee or Riyad Bank, as the case may be, following consultation with the Independent Adviser, determines is customarily applied to the relevant Successor Rate or the Alternative Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Original Reference Rate; or (if the Trustee or Riyad Bank, as the case may be, following consultation with the Independent Adviser determines that no such spread is customarily applied)

(c) the Trustee or Riyad Bank, as the case may be, following consultation with the Independent Adviser determines is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be).

"**Alternative Rate**" means an alternative benchmark or screen rate which the Trustee or Riyad Bank, as the case may be, determines in accordance with Condition 7.11(b) is customarily applied in international debt capital markets transactions for the purposes of determining rates of profit (or the relevant component part thereof) in the same Specified Currency as the Certificates.

"**Benchmark Amendments**" has the meaning given to it in Condition 7.11(d).

"**Benchmark Event**" means:

(a) the Original Reference Rate ceasing to be published for a period of at least five Business Days or ceasing to exist;

(b) a public statement by the administrator of the Original Reference Rate that the Original Reference Rate is (or will be deemed by such administrator to be) no longer representative of its relevant underlying market;

(c) a public statement by the administrator of the Original Reference Rate that it has ceased or that it will cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate);

(d) a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate has been or will be permanently or indefinitely discontinued;

(e) a public statement by the supervisor of the administrator of the Original Reference Rate to the effect that the Original Reference Rate will be prohibited from being used or that its use will be subject to restrictions or adverse consequences; or

(f) it has become unlawful for any Paying Agent, the Calculation Agent or the Trustee to calculate any payments due to be made to any Certificateholder using the Original Reference Rate,

provided that the Benchmark Event shall be deemed to occur (x) in the case of sub-paragraphs (c) and (d) above, on the date of the cessation of publication of the Original Reference Rate or the discontinuation of the Original Reference Rate, as the case may be; (y) in the case of sub-paragraph (e) above, on the date of the prohibition of use of the Original Reference Rate; and (z) in the case of sub-paragraph (b) above, on the date with effect from which the Original Reference Rate will no longer be (or will be deemed by the relevant administrator to no longer be) representative of its relevant underlying market and which is specified in the relevant public statement, and, in each case, not the date of the relevant public statement.

The occurrence of a Benchmark Event shall be determined by the Trustee and promptly notified to the Agents. For the avoidance of doubt, the Agents shall have no responsibility for making such determination.

"**Directors**" means the executive and non-executive directors of Riyad Bank or the Trustee, as the case may be, who make up the board of directors of Riyad Bank or the Trustee, as applicable;

"**Independent Adviser**" means an independent financial institution of international repute or an independent financial adviser with appropriate expertise appointed by the Trustee or Riyad Bank, as the case may be, under Condition 7.11(a).

"**Original Reference Rate**" means the originally-specified benchmark or screen rate (as applicable) used to determine the Rate (or any component part thereof) on the Certificates.

"**Relevant Nominating Body**" means, in respect of a benchmark or screen rate (as applicable):

(a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or

(b) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (i) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (ii) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (iii) a group of the aforementioned central banks or other supervisory authorities or (iv) the Financial Stability Board or any part thereof.

"**Successor Rate**" means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

8 Reset Periodic Distribution Provisions

8.1 Application

This Condition 8 is applicable to the Certificates only if the Reset Periodic Distribution Provisions are specified in the applicable Pricing Supplement as being applicable. The Certificates in relation to which this Condition 8.1 is applicable shall bear profit on their outstanding face amount at the rates per annum determined in accordance with this Condition 8 and (in relation to Tier 2 Certificates only) shall be subject to Condition 12.

8.2 Periodic Distribution Amount

Subject to Conditions 4.2, 7.11, 9 and (in relation to Tier 2 Certificates only) Condition 12, the Principal Paying Agent shall distribute to holders *pro rata* to their respective holdings, out of amounts transferred to the Transaction Account, a distribution in relation to the Certificates on each Periodic Distribution Date, equal to the amount determined as follows:

(a) from (and including) the Return Accrual Commencement Date up to (but excluding) the First Reset Certificate Reset Date at the Initial Periodic Distribution Rate;

(b) from (and including) the First Reset Certificate Reset Date to (but excluding) the Second Reset Certificate Reset Date or, if no such Second Reset Certificate Reset Date is specified in the applicable Pricing Supplement, the Scheduled Dissolution Date, at the First Reset Periodic Distribution Rate; and

(c) for each Subsequent Reset Period thereafter (if any), at the relevant Subsequent Reset Periodic Distribution Rate.

Periodic Distribution Amounts will be payable, subject as provided herein, in arrears on each Periodic Distribution Date and on the date specified in the applicable Pricing Supplement as the Scheduled Dissolution Date.

Save as otherwise provided herein, the provisions applicable to fixed rate Certificates shall apply to Reset Certificates.

8.3 Cessation of Profit Entitlement

No further amounts will be payable on any Certificate from and including the Scheduled Dissolution Date or, as the case may be, the relevant Dissolution Date, as a result of the failure of Riyad Bank to pay the relevant Exercise Price and enter into a sale agreement in accordance with the terms of the Purchase Undertaking or the Sale and Substitution Undertaking, as the case may be, unless default is made in the payment of the relevant Dissolution Amount in which case Periodic Distribution Amounts will continue to accrue in respect of the Certificates in the manner provided in this Condition 8.

8.4 Calculation of Periodic Distribution Amount

The Calculation Agent will, as soon as practicable after the time at which the Rate is to be determined in relation to each Reset Period, calculate the Periodic Distribution Amount payable in respect of each Certificate for such Reset Period.

8.5 Fallback Provisions for Reset Certificates

If on any Reset Determination Date the Relevant Screen Page is not available or the Mid-Swap Rate does not appear on the Relevant Screen Page, other than in the circumstances provided for in Condition 7.11, the Trustee shall request each of the Reference Banks to provide the Calculation Agent with its Mid-Market Swap Rate Quotation as at approximately 11.00 a.m. in the principal financial centre of the Specified Currency on the Reset Determination Date in question.

If two or more of the Reference Banks provide the Calculation Agent with Mid-Market Swap Rate Quotations, the First Reset Periodic Distribution Rate or the Subsequent Reset Periodic Distribution Rate (as applicable) for the relevant Reset Period shall be the sum of the arithmetic mean (rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards) of the relevant Mid-Market Swap Rate Quotations and the First Margin or Subsequent Margin (as applicable), all as determined by the Calculation Agent.

If on any Reset Determination Date only one or none of the Reference Banks provides the Calculation Agent with a Mid-Market Swap Rate Quotation, the Mid-Market Swap Rate Quotation will be (a) in the case of each Reset Period other than the First Reset Period, the Mid-Swap Rate in respect of the immediately preceding Reset Period or (b) in the case of the First Reset Period, an amount set out in the Pricing Supplement as the "**First Reset Period Fallback**".

8.6 Publication

The Calculation Agent will cause each Rate and Periodic Distribution Amount determined by it, together with the relevant Periodic Distribution Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Trustee, Riyad Bank, the Delegate and the Paying Agents as soon as practicable after such determination but (in the case of each Rate, Periodic Distribution Amount and Periodic Distribution Date) in any event not later than the relevant Reset Date. Notice thereof shall also promptly be given to the Certificateholders by the Trustee. The Calculation Agent will be required to recalculate any Periodic Distribution Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Return Accumulation

Period and any such recalculation will be notified to the Trustee, Riyad Bank, the Delegate, the Paying Agents and the Certificateholders as soon as practicable after such determination.

8.7 Notifications, etc. to be final

All communications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 8 by the Calculation Agent will (in the absence of wilful default, bad faith or manifest or proven error) be binding on the Trustee, the Delegate, Riyad Bank, the Agents and all Certificateholders and (save in the absence of wilful default or bad faith) no liability shall attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions under this Condition 8.

In this Condition 8, the following expressions have the following meanings:

"**First Margin**" means the margin specified in the applicable Pricing Supplement;

"**First Reset Certificate Reset Date**" means the date specified in the applicable Pricing Supplement;

"**First Reset Period**" means the period from (and including) the First Reset Certificate Reset Date to (but excluding) the Second Reset Certificate Reset Date or, if no such Second Reset Certificate Reset Date is specified in the applicable Pricing Supplement, the Scheduled Dissolution Date;

"**First Reset Periodic Distribution Rate**" means, subject to Condition 7.11, the Rate determined by the Calculation Agent on the relevant Reset Determination Date corresponding to the First Reset Period as the sum of the relevant Reset Rate plus the First Margin;

"**Initial Periodic Distribution Rate**" means the initial periodic distribution rate per annum specified in the applicable Pricing Supplement;

"**Mid-Market Swap Rate**" means for any Reset Period the mean of the bid and offered rates for the fixed leg payable with a frequency equivalent to the Fixed Leg Swap Duration specified in the applicable Pricing Supplement during the relevant Reset Period (calculated on the day count basis customary for fixed rate payments in the Specified Currency as determined by the Calculation Agent) of a fixed-for-floating interest rate swap transaction in the Specified Currency which transaction (a) has a term equal to the relevant Reset Period and commencing on the relevant Reset Date, (b) is in an amount that is representative for a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market and (c) has a floating leg based on the Mid-Swap Floating Leg Benchmark Rate for the Mid-Swap Maturity (as specified in the applicable Pricing Supplement) (calculated on the day count basis customary for floating rate payments in the Specified Currency as determined by the Calculation Agent);

"**Mid-Market Swap Rate Quotation**" means a quotation (expressed as a percentage rate per annum) for the relevant Mid-Market Swap Rate;

"**Mid-Swap Floating Leg Benchmark Rate**" means EURIBOR if the Specified Currency is euro or LIBOR for the Specified Currency if the Specified Currency is not euro or as otherwise specified in the applicable Pricing Supplement;

"**Mid-Swap Rate**" means, in relation to a Reset Determination Date and subject to Condition 7.11, the applicable semi-annual or annualised (as specified in the applicable Pricing Supplement) mid-swap rate for swap transactions in the Specified Currency (with a maturity equal to that of the relevant Swap Rate Period specified in the applicable Pricing Supplement) as displayed on the Screen Page at 11.00 a.m. (in the principal financial centre of the Specified Currency) on the relevant Reset Determination Date (which rate, if the relevant Periodic Distribution Dates are other than semi-annual or annual Periodic Distribution Dates, shall be adjusted by, and in the manner determined by, the Calculation Agent);

"**Reference Certificate**" means for any Reset Period, a government security or securities issued by the state responsible for issuing the Specified Currency (which, if the Specified Currency is euro, shall be Germany) selected by Riyad Bank on the advice of an independent investment bank of international repute as having an actual or interpolated maturity comparable with the relevant Reset Period that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities denominated in the same currency as the Certificates and of a comparable maturity to the relevant Reset Period;

"**Reference Certificate Dealer**" means each of five banks (selected by Riyad Bank on the advice of an independent investment bank of international repute), or their affiliates, which are (a) primary government securities dealers, and their respective successors or (b) market makers in pricing corporate debt issues;

"**Reference Certificate Dealer Quotations**" means, with respect to each Reference Certificate Dealer and the relevant Reset Determination Date, the arithmetic average, as determined by the Calculation Agent, of the bid and offered prices for the relevant Reference Certificate (expressed in each case as a percentage of its face amount) at or around 11.00 a.m. in the principal financial centre of the Specified Currency on the relevant Reset Determination Date and quoted in writing to the Calculation Agent by such Reference Certificate Dealer;

"**Reference Certificate Price**" means, with respect to any Reset Determination Date, (a) the arithmetic average of the Reference Certificate Dealer Quotations for such Reset Determination Date, after excluding the highest and lowest such Reference Certificate Dealer Quotations or (b) if the Calculation Agent obtains fewer than four such Reference Certificate Dealer Quotations, the arithmetic average of all such quotations. If one or no quotations are provided, the "Reference Certificate Rate" will be (i) in the case of each Reset Period other than the First Reset Period, the Reference Certificate Rate in respect of the immediately preceding Reset Period or (ii) in the case of the First Reset Period, as set out in the Pricing Supplement as the "First Reset Period Fallback";

"**Reference Certificate Rate**" means the annual yield to maturity or interpolated yield to maturity (on the relevant day count basis) of the relevant Reference Certificate, assuming a price for such Reference Certificate (expressed as a percentage of its face amount) equal to the relevant Reference Certificate Price, as calculated by the Calculation Agent;

"**Reset Certificate Reset Date**" means the First Reset Certificate Reset Date, the Second Reset Certificate Reset Date and every Subsequent Reset Certificate Reset Date as may be specified in the applicable Pricing Supplement; provided, however, that if the date specified in the relevant Pricing Supplement is not a Business Day, then such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day;

"**Reset Determination Date**" means, in respect of the First Reset Period, the second Business Day prior to the First Reset Certificate Reset Date, in respect of the first Subsequent Reset Period, the second Business Day prior to the Second Reset Certificate Reset Date and, in respect of each Reset Period thereafter, the second Business Day prior to the first day of each such Reset Period or as otherwise specified in the Pricing Supplement;

"**Reset Period**" means the First Reset Period or a Subsequent Reset Period;

"**Reset Rate**" means (a) if "Mid-Swap Rate" is specified in the applicable Pricing Supplement, the relevant Mid-Swap Rate or (b) if "Reference Certificate" is specified in the Pricing Supplement, the relevant Reference Certificate Rate;

"**Second Reset Certificate Reset Date**" means the date specified in the applicable Pricing Supplement;

"**Subsequent Margin**" means the margin(s) specified in the applicable Pricing Supplement;

"**Subsequent Reset Period**" means the period from (and including) the Second Reset Certificate Reset Date to (but excluding) the next Reset Certificate Reset Date, and each successive period from (and including) a Reset Certificate Reset Date to (but excluding) the next succeeding Reset Certificate Reset Date; and

"**Subsequent Reset Periodic Distribution Rate**" means, in respect of any Subsequent Reset Period and subject to Condition 7.11, the Rate being determined by the Calculation Agent on the relevant Reset Determination Date corresponding to such Subsequent Reset Period as the sum of the relevant Reset Rate plus the applicable Subsequent Margin.

9 Payment

9.1 Payments in respect of the Certificates

Subject to Condition 9.2:

(a) payment in a Specified Currency other than Renminbi of any Dissolution Amount and any Periodic Distribution Amount will be made by transfer to the registered account of each Certificateholder; and

(b) payments in Renminbi will be made by transfer to the registered account of each Certificateholder.

Payments of any Dissolution Amount will only be made against surrender of the relevant Certificate at the specified office of any of the Paying Agents. Each Dissolution Amount and each Periodic Distribution Amount will be paid to the holder shown on the Register at the close of business on the relevant Record Date.

For the purposes of these Conditions:

"**Dissolution Amount**" means, as appropriate, the Final Dissolution Amount, the Early Dissolution Amount (Tax), the Early Dissolution Amount (Capital Disqualification Event), the Optional Dissolution Amount (Call), the Optional Dissolution Amount (Certificateholder Put), the Dissolution Amount for the purposes of Condition 16 or in the case of Senior Certificates only, such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the applicable Pricing Supplement. In relation to each Tier 2 Certificate, the Final Dissolution Amount, the Early Dissolution Amount (Tax), the Early Dissolution Amount (Capital Disqualification Event), the Optional Dissolution Amount (Call) and the Dissolution Amount for the purposes of Condition 16 shall be its outstanding face amount;

"**Payment Business Day**" means:

(i) in the case where presentation and surrender of a definitive Certificate is required before payment can be made, a day on which banks in the relevant place of surrender of the definitive Certificate are open for presentation and payment of securities and for dealings in foreign currencies; and

(ii) in the case of payment by transfer to an account:

(a) if the currency of payment is euro, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre;

(b) if the currency of payment is not euro or Renminbi, any day which is a day on which dealings in foreign currencies may be carried on in the principal financial centre of the currency of payment and in each (if any) Additional Financial Centre; or

(c) in relation to any sum payable in Renminbi, a day (other than a Saturday, Sunday or public holiday) on which commercial banks in Hong Kong are generally open for business and settlement or Renminbi payments in Hong Kong; or

(d) if TARGET2 System is specified as an Additional Financial Centre in the applicable Pricing Supplement, a day on which the TARGET2 System is open;

(iii) a Certificateholder's "**registered account**" means, in the case of payment in Renminbi, the Renminbi account maintained by or on behalf of the Certificateholder with a bank in Hong Kong, details of which appear on the Register at the close of business on the relevant Record Date or, in the case of a payment in a Specified Currency other than Renminbi, the account maintained by or on behalf of such Certificateholder with a bank that processes such payments, details of which appear on the Register at the close of business on the relevant Record Date;

(iv) a Certificateholder's "**registered address**" means its address appearing on the Register at that time; and

(v) "**Record Date**" means: (A) (where the Certificate is represented by a Global Certificate), at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the Periodic Distribution Date, Scheduled Dissolution Date or Dissolution Date, as the case may be; or (B) (where the Certificate is in definitive form), in the case of the payment of a Periodic Distribution Amount, the date falling at the close of business on the fifth day (in the case of the specified currency being Renminbi) and on the fifteenth day (in the case of a specified currency other than Renminbi) (whether or not such fifth day fifteenth day is a business day) before the relevant Periodic Distribution Date and, in the case of the payment of a Dissolution Amount, the date falling two Payment Business Days before the Scheduled Dissolution Date or Dissolution Date, as the case may be.

9.2 Payments subject to Applicable Laws

Payments in respect of Certificates are subject in all cases to (a) any fiscal or other laws and regulations applicable thereto in any jurisdiction, but without prejudice to the provisions of Condition 13 and (b) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 13) any law implementing an intergovernmental approach thereto.

9.3 Payment only on a Payment Business Day

Payment instructions (for value on the due date or, if that is not a Payment Business Day, for value on the first following day which is a Payment Business Day) will be initiated on the due date for payment or, in the case of a payment of any Dissolution Amount, if later, on the Payment Business Day on which the relevant definitive Certificate is surrendered at the specified office of a Paying Agent for value as soon as reasonably practicable thereafter.

Certificateholders will not be entitled to any additional payment for any delay after the due date in receiving the amount due if the due date is not a Payment Business Day or if the relevant Certificateholder is late in surrendering its definitive Certificate (if required to do so).

If the amount of any Dissolution Amount or Periodic Distribution Amount is not paid in full when due, the Registrar will annotate the Register with a record of the amount in fact paid.

9.4 RMB account

All payments in respect of any Certificate or Periodic Distribution Amount in RMB will be made solely by credit to a registered RMB account maintained by or on behalf of the payee at a bank in Hong Kong in accordance with applicable laws, rules, regulations and guidelines issued from time to time (including all applicable laws and regulations with respect to the settlement of RMB in Hong Kong).

9.5 RMB Currency Event

If the Specified Currency of the Certificates is RMB and an RMB Currency Event, as determined by Riyad Bank or the Trustee acting in good faith, exists on a date for payment of any Dissolution Amount or Periodic Distribution Amount (in whole or in part) in respect of any Certificate, the Trustee's obligation to make a payment in RMB under the terms of the Certificates may be replaced by an obligation to pay such amount (in whole or in part) in the Relevant Currency and converted by Riyad Bank or the Trustee using the Spot Rate for the relevant Determination Date as promptly notified to the Trustee and the Paying Agents.

Upon the occurrence of an RMB Currency Event, the Trustee shall give notice, as soon as reasonably practicable, to the Certificateholders in accordance with Condition 19 stating the occurrence of the RMB Currency Event, giving details thereof and the action proposed to be taken in relation thereto.

In such event, any payment of U.S. dollars will be made by transfer to a U.S. dollar denominated account maintained by the payee with a bank in New York City; and the definition of "**Payment Business Day**" in Condition 9.1 shall mean any day which (subject to Condition 13) is a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in: (a) in the case of Certificates in definitive form only, the relevant place of presentation; and (b) London and New York City.

For the purpose of this Condition 9:

"**Determination Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for general business (including dealings in foreign exchange) in Hong Kong, London and New York City;

"**Determination Date**" means the day which is two Determination Business Days before the due date of the relevant payment under the Certificates, other than where Riyad Bank or the Trustee properly determines that a RMB Currency Event has occurred at any time during the period from and including 10.01 a.m. (Hong Kong time) on the second Determination Business Day preceding the original due date to and including 11.59 p.m. (Hong Kong time) on the original due date, in which case the "**Determination Date**" will be the Determination Business Day immediately following the date on which the determination of the occurrence of a RMB Currency Event has been made;

"**Governmental Authority**" means any *de facto* or *de jure* government (or any agency or instrumentality thereof), court, tribunal, administrative or other governmental authority or any other entity (private or public) charged with the regulation of the financial markets (including the central bank) of Hong Kong;

"**Relevant Currency**" means United States dollars;

"**RMB Currency Events**" means any one of RMB Illiquidity, RMB Non-Transferability and RMB Inconvertibility;

"**RMB Illiquidity**" means the general RMB exchange market in Hong Kong becomes illiquid as a result of which it is impossible for Riyad Bank or the Trustee to obtain sufficient RMB in order to satisfy its obligation to pay an Periodic Distribution Amount or Dissolution Amount (in whole or in part) in respect of the Certificates, as determined by Riyad Bank or the Trustee acting in good faith and in a commercially reasonable manner following consultation with two independent foreign exchange dealers of international repute active in the RMB exchange market in Hong Kong selected by the Trustee;

"**RMB Inconvertibility**" means the occurrence of any event that makes it impossible for the Trustee to convert any amount due in respect of the Certificates into RMB on any payment date in the general RMB exchange market in Hong Kong, other than where such impossibility is due solely to the failure of the Trustee to comply with any law, rule or regulation enacted by any Governmental Authority (unless such law, rule or regulation is enacted after the Issue Date of the first Tranche of the relevant Series and it is impossible for the Trustee, due to an event beyond its control, to comply with such law, rule or regulation);

"**RMB Non-Transferability**" means the occurrence of any event that makes it impossible for the Trustee to transfer RMB (a) between accounts inside Hong Kong (b) from an account inside Hong Kong to an account outside Hong Kong (including where the RMB clearing and settlement system for participating banks in Hong Kong is disrupted or suspended) or (c) from an account outside Hong Kong to an account inside Hong Kong, other than where such impossibility is due solely to the failure of the Trustee to comply with any law, rule or regulation enacted by any Governmental Authority (unless such law, rule or regulation is enacted after the Issue Date of the first Tranche of the relevant Series and it is impossible for the Trustee, due to an event beyond its control, to comply with such law, rule or regulation); and

"**Spot Rate**" means the spot CNY/U.S.$ exchange rate for the purchase of U.S. dollars with Renminbi in the over-the-counter Renminbi exchange market in Hong Kong for settlement in two Determination Business Days, as determined by the Calculation Agent at or around 11.00 a.m. (Hong Kong time) on the Determination Date, on a deliverable basis by reference to Reuters Screen Page TRADCNY3, or if no such rate is available, on a non-deliverable basis by reference to Reuters Screen Page TRADNDF. If neither rate is available, the Calculation Agent shall determine the Spot Rate at or around 11:00 a.m. (Hong Kong time) on the Determination Date as the most recently available CNY/U.S. dollar official fixing rate for settlement in two Determination Business Days reported by the State Administration of Foreign Exchange of the PRC, which is reported on the Reuters Screen Page CNY=SAEC. Reference to a page on the Reuters Screen means the display page so designated on the Reuter Monitor Money Rates Service (or any successor service) or such other page as may replace that page for the purpose of displaying a comparable currency exchange rate.

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 9.4 by the Calculation Agent, will (in the absence of wilful default, bad faith or manifest error) be binding on the Trustee, the Agents and all RMB Certificateholders.

10 Agents

10.1 Agents of Trustee

In acting under the Agency Agreement and in connection with the Certificates, the Agents act solely as agents of the Trustee and (to the extent provided therein) the Delegate and do not assume any obligations towards or relationship of agency or trust for or with any of the Certificateholders. The Agency

Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

10.2 Specified Offices

The initial Agents are set out in the Agency Agreement. If any additional Paying Agents are appointed in connection with any Series, the names of such Paying Agents will be specified in Part B of the applicable Pricing Supplement. The Trustee reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents, provided, however, that:

(a) there will at all times be a Principal Paying Agent;

(b) there will at all times be a Registrar;

(c) if a Calculation Agent (other than the Principal Paying Agent) has been appointed in the applicable Pricing Supplement, there will at all times be a Calculation Agent;

(d) so long as any Certificates are admitted to listing, trading and/or quotation on any listing authority, stock exchange and/or quotation system, there will at all times be a Paying Agent, Registrar and a Transfer Agent having its specified office in such place (if any) as may be required by the rules of such listing authority, stock exchange and/or quotation system; and

(e) there will at all times be a Paying Agent (which may be the Principal Paying Agent) located in a jurisdiction within Europe.

Notice of any termination or appointment and of any changes in specified offices will be given to the Certificateholders promptly by the Trustee in accordance with Condition 19.

11 Capital Distributions of the Trust

11.1 Scheduled Dissolution

Unless the Certificates are previously redeemed, or purchased and cancelled, in full, and subject to Condition 12, the Trustee will redeem each Certificate on the Scheduled Dissolution Date at the Final Dissolution Amount, together with any Periodic Distribution Amounts payable. Upon payment in full of such amounts to the Certificateholders, the Trust will terminate, the Certificates shall cease to represent undivided ownership interests in the Trust Assets and no further amounts shall be payable in respect thereof and the Trustee shall have no further obligations in respect thereof.

11.2 Early Dissolution for Tax Reasons

Subject to Condition 11.9, in the case of Tier 2 Certificates only, the Certificates may be redeemed by the Trustee in whole, but not in part:

(a) at any time (if the Fixed Periodic Distribution Provisions or Reset Periodic Distribution Provisions are specified in the applicable Pricing Supplement as being applicable); or

(b) on any Periodic Distribution Date (if the Floating Periodic Distribution Provisions are specified in the applicable Pricing Supplement as being applicable),

(such date, the "**Tax Event Dissolution Date**") on giving not less than the minimum period and not more than the maximum period of notice specified in the applicable Pricing Supplement to the Certificateholders in accordance with Condition 19 and to the Delegate (which notice shall be irrevocable), at the Early Dissolution Amount (Tax) together with any accrued but unpaid Periodic Distribution Amount, if a Tax Event occurs where "**Tax Event**" means:

(a) (i) the Trustee has or will become obliged to pay additional amounts as provided or referred to in Condition 13 as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 13) or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction) which change or amendment becomes effective after the Issue Date of the most recent Tranche of the relevant Series and (ii) such obligation cannot be avoided by the Trustee taking reasonable measures available to it; or

(b) the receipt by the Trustee of notice from Riyad Bank that (i) Riyad Bank has or will become obliged to pay additional amounts pursuant to the terms of the Servicing Agency Agreement, the Purchase Undertaking and/or the Sale and Substitution Undertaking as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective after the Issue Date of the most recent Tranche of the relevant Series and (ii) such obligation cannot be avoided by Riyad Bank taking reasonable measures available to it,

provided, however, that no such notice of redemption shall be given, unless an exercise notice has been received by the Trustee from Riyad Bank under the Sale and Substitution Undertaking and no such notice of redemption shall be given earlier than 60 days prior to the earliest date on which (in the case of (a) above) the Trustee would be obliged to pay such additional amounts if a payment in respect of the Certificates were then due or (in the case of (b) above) Riyad Bank would be obliged to pay such additional amounts if a payment to the Trustee under the Servicing Agency Agreement was then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Trustee shall deliver to the Delegate: (A) a certificate signed by two Directors of the Trustee (in the case of (a) above) or of Riyad Bank (in the case of (b) above) stating that the Trustee is entitled to effect such dissolution and redemption and setting forth a statement of facts stating that (1) the conditions precedent in (a) or (b) above to the right of the Trustee so to dissolve have occurred and (2) (in relation to Tier 2 Certificates only) the conditions set out in Condition 11.9 have been satisfied; (B) an opinion of independent legal advisers of recognised standing to the effect that the Trustee or Riyad Bank, as the case may be, has or will become obliged to pay such additional amounts as a result of such change or amendment; and (C) (in relation to Tier 2 Certificates only) if required at such time by the Capital Regulations a copy of the Financial Regulator’s written approval for redemption of the Certificates. The Delegate shall be entitled to accept (without further investigation and without liability to any person) and rely upon any such certificate and opinion as sufficient evidence thereof, in which event it shall be conclusive and binding on the Certificateholders. Upon the expiry of any such notice as is referred to in this Condition 11.2, the Trustee shall be bound to redeem the Certificates at the Early Dissolution Amount (Tax) together with any accrued but unpaid Periodic Distribution Amount and, upon payment in full of such amounts to the Certificateholders, the Trust will terminate, the Certificates shall cease to represent undivided ownership interests in the Trust Assets and no further amounts shall be payable in respect thereof and the Trustee shall have no further obligations in respect thereof.

11.3 Early Dissolution following a Capital Disqualification Event

In the case of Tier 2 Certificates only and subject to Condition 11.9, the Tier 2 Certificates may be redeemed by the Trustee in whole, but not in part:

(a) at any time (if the Fixed Periodic Distribution Provisions or Reset Periodic Distribution Provisions are specified in the applicable Pricing Supplement as being applicable); or

(b) on any Periodic Distribution Date (if the Floating Periodic Distribution Provisions are specified in the applicable Pricing Supplement as being applicable),

(such date, the "**Capital Disqualification Event Dissolution Date**") on giving not less than the minimum period and not more than the maximum period of notice specified in the applicable Pricing Supplement to the Certificateholders in accordance with Condition 19 and to the Delegate (which notice shall be irrevocable), at the Early Dissolution Amount (Capital Disqualification Event) together with any accrued but unpaid Periodic Distribution Amount, if a Capital Disqualification Event occurs,

provided that no such notice of redemption shall be given, unless an exercise notice has been received by the Trustee from Riyad Bank under the Sale and Substitution Undertaking, the delivery of which is, subject to Riyad Bank having delivered to the Delegate: (i) a certificate signed by two Directors of Riyad Bank stating that (A) a Capital Disqualification Event has occurred and cannot be avoided by Riyad Bank taking reasonable measures available to it and (B) the conditions set out in Condition 11.9 have been satisfied; and (ii) if required by the Capital Regulations at such time, a copy of the notice received from the Financial Regulator to the effect that a Capital Disqualification Event has occurred and approving the redemption of the Certificates. The Delegate shall be entitled to accept (without further investigation or formality and without liability to any person) and rely upon any such certificate and notice as sufficient evidence thereof in which event it shall be conclusive and binding on the Delegate and the Certificateholders.

Upon the expiry of any such notice as is referred to in this Condition 11.3, the Trustee shall be bound to redeem the Certificates at the Early Dissolution Amount (Capital Disqualification Event) together with any accrued but unpaid Periodic Distribution Amount and, upon payment in full of such amounts to the Certificateholders, the Trust will terminate, the Certificates shall cease to represent undivided ownership interests in the Trust Assets and no further amounts shall be payable in respect thereof and the Trustee shall have no further obligations in respect thereof.

In these Conditions:

"**Capital Disqualification Event**" shall be deemed to have occurred if, as a result of any change in any applicable law (including any Capital Regulations), or the application or official interpretation thereof, in each such case becoming effective after the Issue Date of the most recent Tranche of Tier 2 Certificates, Riyad Bank is notified in writing by the Financial Regulator that the payment obligations of Riyad Bank under the Transaction Documents to which it is a party in an amount equal to the face amount of the outstanding Certificates is excluded in full (or, to the extent not prohibited by the Capital Regulations at the time of the proposed redemption, in part) from the Tier 2 Capital of Riyad Bank (save where such non-qualification is only as a result of either: (a) any applicable limitation on the amount of such capital; or (b) such capital ceasing to count towards Riyad Bank's capital base through any amortisation or similar process or any changes thereto (including any amortisation or similar process imposed through any grandfathering arrangement));

"**Capital Regulations**" means, at any time, the regulations, requirements, guidelines and policies relating to capital adequacy then in effect in Saudi Arabia, including those of the Financial Regulator;

"**Financial Regulator**" means SAMA or such other governmental authority which assumes or performs the functions of SAMA, as at the Issue Date of the first Tranche of Tier 2 Certificates, or such other successor authority exercising primary banking supervision, in each case with respect to prudential matters in relation to Riyad Bank;

"**SAMA**" means the Saudi Arabia Monetary Authority and/or any of its successors or assigns; and

"**Tier 2 Capital**" means capital qualifying as, and approved by the Financial Regulator as, tier 2 capital in accordance with the Capital Regulations.

11.4 Dissolution at the Option of the Trustee

If Optional Dissolution (Call) is specified in the applicable Pricing Supplement as being applicable, subject to Condition 11.9 in the case of Tier 2 Certificates only, the Certificates may be redeemed in whole but not in part on any Optional Dissolution Date, which must be a Periodic Distribution Date if the Floating Periodic Distribution Provisions are specified in the applicable Pricing Supplement, at the relevant Optional Dissolution Amount (Call) together with any accrued but unpaid Periodic Distribution Amounts on the Trustee giving not less than the minimum period nor more than the maximum period of notice specified in the applicable Pricing Supplement to the Certificateholders in accordance with Condition 19 and to the Delegate (which notice shall be irrevocable and shall oblige the Trustee to redeem the Certificates on the relevant Optional Dissolution Date). Upon such redemption, the Trust will terminate, the Certificates shall cease to represent undivided ownership interests in the Trust Assets and no further amounts shall be payable in respect thereof and the Trustee shall have no further obligations in respect thereof; provided, however, that no such notice of redemption shall be given unless the Trustee has received an exercise notice from Riyad Bank under the Sale and Substitution Undertaking.

Optional Dissolution (Call) and Certificateholder Put Option may not both be specified as applicable in the applicable Pricing Supplement.

11.5 Dissolution at the Option of the Certificateholders

In the case of any Senior Certificates only, if Certificateholder Put Option is specified in the applicable Pricing Supplement as being applicable, upon the holder of any Certificate giving to the Trustee in accordance with Condition 19 not less than the minimum period nor more than the maximum period of notice specified in the applicable Pricing Supplement the Trustee will, upon the expiry of such notice, redeem such Certificate on the Certificateholder Put Option Date and at the Optional Dissolution Amount (Certificateholder Put) together with any accrued but unpaid Periodic Distribution Amounts. Certificates may be redeemed under this Condition 11.5 in any multiple of their lowest Specified Denomination.

To exercise the right to require redemption of this Certificate the holder of this Certificate must, if this Certificate is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver, at the specified office of the Registrar at any time during normal business hours of the Registrar falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from the specified office of the Registrar (a "**Put Notice**") and in which the holder must specify a bank account to which payment is to be made under this Condition 11.5 and the face amount thereof to be redeemed and, if less than the full amount of the Certificates so surrendered is to be redeemed, an address to which a new Certificate in respect of the balance of such Certificate is to be sent subject to and in accordance with the provisions of Condition 2.2.

If this Certificate is represented by a Global Certificate or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of this Certificate the holder of this Certificate must, within the notice period, give notice to the Principal Paying Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on such Certificateholder's instruction by Euroclear, Clearstream, Luxembourg or any depositary for them to the Principal Paying Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time and if this Certificate is represented by a Global Certificate, at the same time present or procure the presentation of the relevant Global Certificate to the Principal Paying Agent for notation accordingly.

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg by a holder of any Certificate pursuant to this Condition 11.5 shall be irrevocable, except where, prior to the due date of redemption, a Dissolution Event has occurred and the Delegate has declared the Certificates to be redeemed pursuant to Condition 16, in which event such holder, at its option, may elect by notice to the Trustee to withdraw the notice given pursuant to this Condition 11.5.

Certificateholder Put Option and Optional Dissolution (Call) may not both be specified as applicable in the applicable Pricing Supplement.

11.6 No other Dissolution

The Trustee shall not be entitled to redeem the Certificates or dissolve the Trust, otherwise than as provided in this Condition 11, Condition 15 and Condition 16.

11.7 Cancellations

All Certificates which are redeemed, and all Certificates purchased by or on behalf of Riyad Bank or any of its Subsidiaries and delivered by Riyad Bank to the Principal Paying Agent for cancellation, will forthwith be cancelled and, accordingly, such Certificates may not be held, reissued or resold.

11.8 Dissolution Date

In these Conditions, the expression "**Dissolution Date**" means, as the case may be, (a) following the occurrence of a Dissolution Event (as defined in Condition 16), the date on which the Certificates are redeemed in accordance with the provisions of Condition 16*,* (b) the date on which the Certificates are redeemed in accordance with the provisions of Condition 11.2, (c) the date on which the Certificates are redeemed in accordance with the provisions of Condition 11.3, (d) any Optional Dissolution Date or (e) any Certificateholder Put Option Date.

11.9 Conditions to Redemption and Repurchase of Tier 2 Certificates

This Condition 11.9 is only applicable to Tier 2 Certificates.

Tier 2 Certificates may only be redeemed, purchased, cancelled, varied or modified (as applicable) pursuant to Condition 11.2, Condition 11.3, Condition 11.4, Condition 15 or Condition 20, as the case may be, if:

(a) (except to the extent that the Financial Regulator no longer so requires) Riyad Bank has obtained the prior written approval of the Financial Regulator;

(b) (except to the extent that the Financial Regulator no longer so requires) at the time when the relevant notice of redemption is given, Riyad Bank is in compliance with the Applicable Regulatory Capital Requirements; and

(c) (except to the extent that the Financial Regulator no longer so requires) immediately following such redemption, Riyad Bank will be in compliance with the Applicable Regulatory Capital Requirements.

In addition, if the Trustee has elected to redeem the Tier 2 Certificates of any Series and prior to the redemption a Non-Viability Event occurs, the relevant redemption notice shall be automatically rescinded and shall be of no force and effect and the Trustee shall give notice thereof to the Certificateholders in accordance with Condition 19, the Delegate and the Principal Paying Agent, as soon as practicable. Further no notice of redemption shall be given in the period following the occurrence of a Non-Viability Event and the relevant Non-Viability Event Write-down Date.

In these Conditions, "**Applicable Regulatory Capital Requirements**" means any requirements contained in the Capital Regulations for the maintenance of capital from time to time applicable to Riyad Bank, including transitional rules and waivers granted in respect of the foregoing.

12 Loss-Absorption upon the occurrence of a Non-Viability Event

12.1 Write-down of the Tier 2 Certificates

In the case of Tier 2 Certificates only, if a Non-Viability Event occurs at any time on or after the Issue Date of a Series of Certificates and prior to the date on which the Applicable Statutory Loss Absorption Regime becomes effective in respect of the Certificates subject to and as provided in this Condition 12:

(a) Riyad Bank will, no later than the third Business Day following the date on which such Non-Viability Event occurs (or such earlier date as determined by the Financial Regulator), notify the Trustee, the Principal Paying Agent (with a copy to the Delegate) and the Certificateholders in accordance with Condition 19 of the occurrence of such Non-Viability Event (a "**Non-Viability Notice**"). Such Non-Viability Notice shall also (to the extent the relevant information has been received by the Financial Regulator):

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

(ii) specify, in the case of a partial Write-down of the Certificates and the Trust Assets, (1) the outstanding face amount of the Certificates and the principal notional amount of the Trust Assets that the Financial Regulator has determined to be written-down (such amount being the "**Write-down Amount**"), and (2) the remaining outstanding face amount of the Certificates and the principal notional amount of the Trust Assets as determined by the Financial Regulator and notified to Riyad Bank;

(iii) specify, in the case of a full Write-down of the Certificates and the Trust Assets, that Riyad Bank has received written confirmation from the Financial Regulator that the Financial Regulator has determined the outstanding face amount of the Certificates and the principal notional amount of the Trust Assets to be zero; and

(iv) specify the date on which the Write-down of the Certificates and the Trust Assets will take place, which date shall be no later than 10 Business Days (or such other date as determined by the Financial Regulator) after the date of such Non-Viability Notice (such specified date, the "**Non-Viability Event Write-down Date**"); and

(b) the Certificates and the Trust Assets shall be subject to a Write-down on such Non-Viability Event Write-down Date in accordance with Condition 12.2.

If Riyad Bank has not received all the information set out in (i) to (iv) (inclusive) above prior to the date on which the Non-Viability Notice is given, Riyad Bank shall, as soon as reasonably practicable following receipt of such information from the Financial Regulator, notify the Trustee, the Principal Paying Agent (with a copy to the Delegate) and the Certificateholders in accordance with Condition 19.

Following the occurrence of any reduction to any amount due under any Tier 2 Certificates pursuant to this Condition 12.1, any reference to any amount due under such Tier 2 Certificates, or to the outstanding face amount of such Tier 2 Certificates, shall be deemed to mean such amount subject to any applicable reduction pursuant to this Condition 12.1 *mutatis mutandis*.

12.2 Write-down of the Certificates and the Trust Assets

(a) If, at any time, the Financial Regulator determines that a full Write-down is required, on the Non-Viability Event Write-down Date:

(i) The rights of the Certificateholders of the Tier 2 Certificates to the Trust Assets shall automatically be deemed to be irrevocably and unconditionally cancelled;

(ii) the Dissolution Amount shall automatically be written-down to zero and the Tier 2 Certificates shall be cancelled;

(iii) subject to payment of accrued and unpaid Periodic Distribution Amounts if and only to the extent that such Periodic Distribution Amounts became due and payable to the Certificateholders prior to the date of the Non-Viability Notice (and provided payment of such amounts are not prohibited by the Financial Regulator or the Capital Regulations at such time), all rights of any Certificateholder for payment of any amounts under or in respect of the Tier 2 Certificates (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, a Dissolution Event) shall be cancelled and not restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Non-Viability Notice or the Non-Viability Event Write-down Date;

(iv) the Trustee shall dissolve the Trust; and

(v) neither the Trustee nor the Delegate will have any further claim against Riyad Bank in respect of any Tier 2 Certificates.

(b) If the Financial Regulator determines that a partial Write-down of the Certificates and Trust Assets is required and provides Riyad Bank with the information required pursuant to Condition 12.1(a)(ii), and where a partial Write-down of the Certificates and Trust Assets is specified in the Non-Viability Notice (or in a subsequent notice in accordance with Condition 12.1), on the Non-Viability Event Write-down Date:

(i) the face amount of each Certificate and the Trust Assets shall be written-down by the Write-down Amount, in each case as specified in writing by the Financial Regulator and references in these Conditions to "face amount" or "outstanding face amount" shall be construed accordingly;

(ii) the rights of the Certificateholders' of the Tier 2 Certificates to the proportion of Trust Assets so written-down in accordance with this Condition 12.2(ii) shall automatically be deemed to be irrevocably and unconditionally cancelled;

(iii) the Dissolution Amount in respect of such Tier 2 Certificates shall automatically be written-down by the Write-down Amount;

(iv) subject to payment of accrued and unpaid Periodic Distribution Amounts if and only to the extent such amounts became due and payable to the Certificateholders prior to the date of the Non-Viability Notice (and provided payment of such amounts are not prohibited by the Financial Regulator or the Capital Regulations at such time), all rights of any Certificateholder for payment of any amounts under or in respect of the proportion of the Tier 2 Certificates so written-down (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, a Dissolution Event) shall be cancelled and not restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Non-Viability Notice or the Non-Viability Event Write-down Date; and

(v) neither the Trustee nor the Delegate will have any further claim against Riyad Bank in respect of the proportion of the Tier 2 Certificates written-down pursuant to this Condition 12.2(b).

12.3 Applicable Statutory Loss Absorption Regime

With effect on and from the date on which the Applicable Statutory Loss Absorption Regime becomes effective in respect of the Certificates, the foregoing provisions of this Condition 12 will lapse and cease to have any effect, except to the extent such provisions are required by the Applicable Statutory Loss Absorption Regime. If Riyad Bank becomes Non-Viable on or after such date, the Financial Regulator (or Riyad Bank following instructions from the Financial Regulator) may take such action in respect of the Certificates as is required or permitted by such Applicable Statutory Loss Absorption Regime.

12.4 Liability of Delegate and Agents

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

12.5 Interpretation

In these Conditions:

"**Applicable Statutory Loss Absorption Regime**" means a Statutory Loss Absorption Regime that is applicable to the Certificates and which, alone or together with any other law(s) or regulation(s), has the effect that Condition 12.1 and 12.2 could cease to apply to the Certificates without giving rise to a Capital Disqualification Event;

"**Basel III**" means the set of reforms to the international regulatory capital framework for banks issued by the Basel Committee on Banking Supervision as part of a package of new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards for international credit institutions (including guidance on the eligibility criteria for tier 1 capital and tier 2 capital instruments);

"**Non-Viability Event**" means that the Financial Regulator has notified Riyad Bank in writing that it has determined that Riyad Bank is, or will become, Non-Viable without;

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

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

"**Non-Viability Notice**" has the meaning given to it in Condition 12.1;

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

"**Statutory Loss Absorption Regime**" means any statutory regime implemented in the Kingdom which provides the Financial Regulator with the powers to implement loss absorption measures in respect of capital instruments (such as the Tier 2 Certificates), including, but not limited to, any such regime which is implemented pursuant to Basel III;

"**Tier 1 Capital**" means capital qualifying as, and approved by the Financial Regulator as, tier 1 capital in accordance with the Capital Regulations;

"**Write-down**" means the events described in paragraphs (i) through (iv) of Condition 12.2(a) or sub-paragraphs (i) through (iv) of Condition 12.2(b), as appropriate; and

"**Write-down Amount**" has the meaning given to it in Condition 12.2.

13 Taxation

All payments in respect of the Certificates shall be made free and clear of and without withholding or deduction for, or on account of, any present or future Taxes, unless the withholding or deduction of Taxes is required by law. In such event, the Trustee will pay additional amounts so that the full amount which otherwise would have been due and payable under the Certificates is received by the parties entitled thereto, except that no such additional amount shall be payable in relation to any payment in respect of any Certificate:

(a) presented for payment (where presentation is required) in a Relevant Jurisdiction; or

(b) the holder of which is liable for such Taxes in respect of such Certificate by reason of having some connection with a Relevant Jurisdiction other than the mere holding of such Certificate; or

(c) presented for payment (where presentation is required) more than 30 days after the Relevant Date (as defined below), except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on such 30th day assuming that day to have been a Payment Business Day.

As used in these Conditions:

"**Relevant Date**" means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in the principal financial centre of the currency of payment by the Principal Paying Agent on or prior to such due date, the date on which the full amount has been so received and notice to that effect has duly been given to the Certificate holders in accordance with Condition 19;

"**Relevant Jurisdiction**" means: (a) in the case of payments to be made by the Trustee, the Cayman Islands; or (b) in the case of payments to be made by Riyad Bank (acting in any capacity), the Kingdom or, in each case, any political subdivision or authority thereof or therein having the power to tax; and

"**Taxes**" means any present or future taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature imposed or levied by or on behalf of any Relevant Jurisdiction.

The Purchase Undertaking, the Sale and Substitution Undertaking and the Servicing Agency Agreement provide that payments and transfers thereunder by Riyad Bank, shall be made free and clear of and without withholding *or deduction for, or on account of, any present or future Taxes, unless the withholding or deduction of the Taxes is required by law and, in such case, provide for the payment or transfer, as the case may be, by Riyad Bank of additional amounts so that the full amount which would otherwise have been due and payable or transferable, as the case may be, is received by the Trustee.*

14 Prescription

The right to receive distributions in respect of the Certificates will be forfeited unless claimed within a period of 10 years (in the case of Dissolution Amounts) and a period of five years (in the case of Periodic Distribution Amounts) from the Relevant Date in respect thereof, subject to the provisions of Condition 9.

15 Purchase and Cancellation of Certificates

15.1 Purchases

Subject to Condition 11.9 in the case of Tier 2 Certificates only, Riyad Bank or any of its Subsidiaries may at any time purchase Certificates at any price in the open market or otherwise.

15.2 Cancellation of Certificates held by Riyad Bank and/or any of its Subsidiaries

Following any purchase of Certificates by or on behalf of Riyad Bank or any of its Subsidiaries pursuant to Condition 15.1, the Sale and Substitution Undertaking may be exercised by Riyad Bank in respect of the transfer to Riyad Bank of a Cancellation Interest in the Portfolio with an aggregate Value not greater than the aggregate face amount of the Certificates so purchased against cancellation of such Certificates pursuant to Condition 11.7.

16 Dissolution Events

16.1 Dissolution Events for Senior Certificates

This Condition 16.1 only applies to Senior Certificates.

Upon the occurrence of any of the following events (each, a "**Dissolution Event**"):

(a) default is made in the payment of any Dissolution Amount or any Periodic Distribution Amount on the due date for payment thereof and such default continues unremedied for a period of seven days; or

(b) the Trustee fails to perform or observe any of its other duties, obligations or undertakings under the Transaction Documents and (except in any case where, in the opinion of the Delegate, the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days following the service by the Delegate of a notice on the Trustee requiring the same to be remedied; or

(c) a Riyad Bank Event (as defined below) occurs; or

(d) the Trustee repudiates any Transaction Document or does or causes to be done any act or thing evidencing an intention to repudiate any Transaction Document; or

(e) at any time it is or will become unlawful or impossible for the Trustee to perform or comply with any or all of its obligations under the Transaction Documents to which it is party or any of the obligations of the Trustee under the Transaction Documents to which it is a party are not or cease to be legal, valid, and binding; or

(f) either (i) the Trustee becomes insolvent or is unable to pay its debts as they fall due or (ii) an administrator or liquidator of the whole or substantially the whole of the undertaking, assets and revenues of the Trustee is appointed (or application for any such appointment is made) or (iii) the Trustee takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its indebtedness or any guarantee of any indebtedness given by it or (iv) the Trustee ceases or threatens to cease to carry on all or substantially the whole of its business (otherwise than for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent); or

(g) an order or decree is made or an effective resolution is passed for the winding-up, liquidation or dissolution of the Trustee; or

(h) any event occurs which under the laws of the Cayman Islands has an analogous effect to any of the events referred to in paragraphs (e) and (f) above,

the Delegate (subject to it being indemnified and/or secured and/or prefunded to its satisfaction), if notified in writing of the occurrence of such Dissolution Event, shall give notice of the occurrence of such Dissolution Event to the holders of Certificates, in accordance with Condition 19, with a request to such holders to indicate if they wish the Certificates to be redeemed and the Trust to be dissolved. If so requested in writing by the holders of at least one-fifth of the then aggregate face amount of the Certificates outstanding or if so directed by an Extraordinary Resolution of the holders of the Certificates (each, a "**Dissolution Request**"), the Delegate shall (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction) give notice of the Dissolution Request to the Trustee, Riyad Bank and all the holders of the Certificates in accordance with Condition 19, whereupon the Certificates shall be immediately redeemed at the Dissolution Amount specified in the applicable Pricing Supplement, together with any accrued but unpaid Periodic Distribution Amounts on the date of such notice. Upon payment in full of such amounts, the Trust will terminate, the Certificates shall cease to represent undivided ownership interests in the Trust Assets and no further amounts shall be payable in respect thereof and the Trustee shall have no further obligations in respect thereof.

For the purpose of (a) above, amounts shall be considered due in respect of the Certificates (including any amounts calculated as being payable under Condition 6, Condition 7, Condition 8 and Condition 11) notwithstanding that the Trustee has, at the relevant time, insufficient funds or Trust Assets to pay such amounts.

For the purposes of these Conditions:

"**Riyad Bank Event**" means any of the following events:

(a) if default is made in the payment of: (A) any Portfolio Income Revenues (as defined in the Servicing Agency Agreement) to be paid into the Transaction Account by the Servicing Agent in accordance with the terms of the Servicing Agency Agreement and such default continues for a period of seven days; or (B) any Exercise Price to be paid by Riyad Bank under the Purchase Undertaking or Sale and Substitution Undertaking, as the case may be, or any amount payable under Clause 2.3 of the Purchase Undertaking and such default continues for a period of seven days; or

(b) if Riyad Bank defaults in the performance or observance of any of its other obligations under or in respect of the Transaction Documents to which it is a party, unless, in the opinion of the Delegate, the default is capable of remedy and is remedied within 30 days after written notice thereof, addressed to Riyad Bank by the Delegate, has been delivered to Riyad Bank; or provided, however, that the failure by Riyad Bank (acting in its capacity as Servicing Agent) to perform or observe the obligations set out in Clauses 3.1.3 and 3.1.4 of the Servicing Agency Agreement will not constitute a Riyad Bank Event; or

(c) if Riyad Bank repudiates any Transaction Document to which it is a party or at any time it is or becomes unlawful for Riyad Bank (acting in any capacity) to perform or comply with any or all of its obligations under or in respect of the Transaction Documents to which it is respectively a party or any of the obligations of Riyad Bank (acting in any capacity) thereunder are not or cease to be legal, valid, binding and enforceable; or

(d) if Riyad Bank for any reason declares a moratorium on the payment of any Indebtedness or in respect of any guarantee or indemnity of any Indebtedness given by it; or

(e) if (A) any Indebtedness of Riyad Bank or any of its Material Subsidiaries becomes due and payable prior to its stated maturity by reason of any event of default (howsoever described), or (B) any such Indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, or (C) Riyad Bank or any of its Material Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any Indebtedness provided that the aggregate amount of the relevant Indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this sub-paragraph have occurred equals or exceeds U.S.$50,000,000 or its equivalent; or

(f) if any action, condition or thing at any time required to be taken, fulfilled or done in order (A) to enable Riyad Bank lawfully to enter into, exercise its rights and perform and comply with its obligations under and in respect of the Transaction Documents to which it is a party or (B) to ensure that those obligations are legally binding and enforceable is not taken, fulfilled or done within 28 days of the Delegate giving notice in writing to Riyad Bank; or

(g) if Riyad Bank or any of its Material Subsidiaries is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, or Riyad Bank or any of its Material Subsidiaries stops, suspends or threatens to stop or suspend payment of all or substantially all of (or of a particular type of) its debts, proposes or makes a general assignment or a scheme of arrangement or composition with its creditors generally (or any class of its creditors) or a moratorium is agreed or declared or comes into effect in respect of or affecting any of such debts of Riyad Bank or any of its Material Subsidiaries; or

(h) if an administrator is appointed, an order is made or an effective resolution passed for the winding-up or dissolution or administration of Riyad Bank or any of its Material Subsidiaries, or Riyad Bank or any of its Material Subsidiaries shall apply or petition for a winding-up, liquidation or administrative liquidation order in respect of itself or cease or through an official action of its board of directors threaten to cease to carry on all or substantially all of its business or operations, in each case except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by the Delegate or by an Extraordinary Resolution of the Certificateholders or (ii) in the case of a Material Subsidiary, whereby the undertaking and assets of the Material Subsidiary are transferred to or otherwise vested in Riyad Bank or another of its Material Subsidiaries; or

(i) if any event occurs which has an analogous effect to any of the events referred to in paragraphs (g) and (h) inclusive above; or

(j) if a distress, attachment, execution or other legal process is levied, enforced or sued out on or against all or substantially all of the property, assets or revenues of Riyad Bank or any of its Material Subsidiaries and is not discharged or stayed within 30 days,

provided that, in the case of paragraph (b) only, such event shall only be a Riyad Bank Event if the Delegate has certified that, in its opinion, such event is materially prejudicial to the interests of the Certificateholders.

References in this Condition 16 to:

(a) "**debts**" shall be deemed to include any debt or other financing arrangement issued (or intended to be issued) in compliance with the principles of Sharia, in each case whether entered into directly or indirectly by the Riyad Bank; and

(b) "**Indebtedness**" means any present or future indebtedness of any person for or in respect of any money borrowed or raised including (without limitation) any liability arising under bonds, sukuk or other securities or any moneys raised under any transaction having the commercial effect of borrowing or raising money including any Shari'a compliant alternative of the foregoing.

16.2 Dissolution Events for Tier 2 Certificates

This Condition 16.2 only applies to Tier 2 Certificates.

In the event of a Winding Up Proceeding, subject to the Trustee or the Delegate being indemnified and/or secured and/or prefunded to its satisfaction, the Trustee (failing whom, the Delegate) shall give notice of the occurrence of such Winding Up Proceeding to the holders of Certificates in accordance with Condition 19 with a request to such holders to request if they wish the Certificates to be redeemed and the Trust to be dissolved. The Delegate may in its absolute discretion or, if so requested in writing by the holders of at least 25 per cent. of the aggregate face amount of the Certificates then outstanding or if so directed by an Extraordinary Resolution of the holders of the Certificates (each a "**Dissolution Request**"), the Delegate shall (subject, in each case, to being indemnified and/or secured and/or prefunded to its satisfaction) give notice to the Trustee, Riyad Bank and all of the holders of the Certificates in accordance with Condition 19 that the Certificates are to be redeemed at the Dissolution Amount on the date specified in such notice, whereupon the Certificates shall become immediately due and payable, subject to the subordination provisions described in Condition 3.3, the non-viability provisions described in Condition 12 and the provisions described in this Condition 16. If it has not already done so, following a Dissolution Request, the Trustee (or the Delegate in the name and on behalf of the Trustee) shall exercise its rights under the Purchase Undertaking by serving an exercise notice on Riyad Bank. Notice of any such action shall promptly be given to the Certificateholders in accordance with Condition 19.

Provided that a Winding Up Proceeding has not occurred, if: (a) default is made by Riyad Bank in the payment of any Portfolio Income Revenues to be paid into the Transaction Account by it (in its capacity as Servicing Agent) in accordance with the terms of the Servicing Agency Agreement and/or default is made in the payment of any Periodic Distribution Amount and, in each case, any such default continues for a period of seven days; or (b) if default is made by Riyad Bank in the payment of the Exercise Price and/or default is made in the payment of any Dissolution Amount and, in each case, any such default continues for a period of seven days (each such default in (a) and (b) above a "**Default**", and each Default and any Winding Up Proceeding, a "**Dissolution Event**"), the Delegate shall (subject, in each case, to being indemnified and/or secured and/or prefunded to its satisfaction), give notice of the occurrence of such Default to the Trustee, Riyad Bank and all of the holders of the Certificates in accordance with Condition 19.

If a Dissolution Event has occurred and if so requested in writing by the holders of at least 25 per cent. of the aggregate face amount of the Certificates then outstanding or if so directed by an Extraordinary Resolution of the holders of the Certificates, the Delegate shall (subject, in each case, to being indemnified and/or secured and/or prefunded to its satisfaction): (a) in the case of a Default, institute proceedings for Riyad Bank to be declared bankrupt or insolvent or for there otherwise to be a Winding Up Proceeding and prove in the winding-up, dissolution or liquidation of Riyad Bank; and (b) in the case of a Winding Up Proceeding, claim or prove in the winding-up, dissolution and liquidation of Riyad Bank.

17 Enforcement and Exercise of Rights

17.1 Enforcement in respect of Senior Certificates

In respect of Senior Certificates only, upon the occurrence of a Dissolution Event (as set out in Condition 16.1) and the giving of notice of a Dissolution Request to the Trustee by the Delegate, to the extent that the amounts payable in respect of the Certificates have not been paid in full, pursuant to Condition 16, the Delegate shall (subject to being indemnified and/or secured and/or prefunded to its satisfaction), take one or more of the following steps:

(a) enforce the provisions of the Purchase Undertaking and/or the Servicing Agency Agreement against Riyad Bank; and/or

(b) take such other steps as the Delegate may consider necessary in its absolute discretion to protect the interests of the Certificateholders.

Notwithstanding the foregoing but subject to Condition 17.3, in respect of Senior Certificates only, the Delegate may at any time, at its discretion and without notice, take such proceedings and/or other steps and/or actions as it may think fit against or in relation to each of the Trustee and/or Riyad Bank to enforce their respective obligations under the Transaction Documents, these Conditions and the Certificates.

17.2 Enforcement in respect of Tier 2 Certificates

In respect of Tier 2 Certificates only:

(a) subject to Condition 17.5, the Delegate is also entitled (subject to being indemnified and/or secured and/or prefunded to its satisfaction) to institute proceedings acting in the name and on behalf of the Trustee against Riyad Bank to enforce any obligation, condition, undertaking or provision binding on Riyad Bank under the Transaction Documents, provided that Riyad Bank shall not by virtue of the institution of any such proceedings be obliged to pay any amount or amounts in relation to any amount payable in respect of the Certificates sooner than the same would otherwise have been payable by it; and

(b) other than as provided above and in Condition 16.2 or as separately agreed between Riyad Bank, the Trustee and the Delegate, no remedy against Riyad Bank shall be available to the Trustee or the Delegate, nor may any action be taken by the Trustee or the Delegate, whether for the recovery of amounts owing by Riyad Bank pursuant to its obligations under the Transaction Documents in respect of any amount due to Certificateholders or in respect of any breach by Riyad Bank of any of its obligations, covenants or undertakings under the Transaction Documents in relation to the Certificates.

17.3 Delegate not obliged to take Action

The Delegate shall not be bound in any circumstances to take any action to enforce or to realise the Trust Assets or take any action against the Trustee and/or Riyad Bank under any Transaction Document unless directed or requested to do so (a) by an Extraordinary Resolution or (b) in writing by the holders of at least one quarter of the then aggregate face amount of the Certificates outstanding and in either case then only if it shall be indemnified and/or secured and/or prefunded to its satisfaction against all liabilities to any person which it may thereby render itself liable or which it may incur by so doing, provided that the Delegate shall not be liable for the consequences of exercising its discretion or taking any such action and may do so without having regard to the effect of such action on individual Certificateholders.

17.4 Direct Enforcement by Certificateholder

No Certificateholder shall be entitled to proceed directly against the Trustee and/or Riyad Bank or provide instructions (not otherwise permitted by the Declaration of Trust) to the Delegate to proceed against the Trustee and/or Riyad Bank under any Transaction Document, unless the Delegate, having become bound to proceed pursuant to Condition 17.3, (i) fails to do so within a reasonable period, or (ii) is unable for any reason to do so and such failure or inability is continuing. Under no circumstances shall the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the Trust Assets (other than pursuant to the Transaction Documents) and the sole right of the Delegate and the Certificateholders against the Trustee and Riyad Bank shall be to enforce their respective obligations under the Transaction Documents.

17.5 Limited Recourse and Non-Viability Conditions

The foregoing paragraphs in this Condition are subject to this paragraph. After enforcing or realising the Trust Assets and distributing the proceeds of the Trust Assets in accordance with Condition 4.2 and the Declaration of Trust, the obligations of the Trustee in respect of the Certificates shall be satisfied and no holder of the Certificates may take any further steps against the Trustee, the Delegate or any other person to recover any further sums in respect of the Certificates and the right to receive any sums unpaid shall be extinguished. In particular, no holder of the Certificates shall be entitled in respect thereof to petition or to take any other steps for the winding-up of Riyad Sukuk Limited.

In respect of Tier 2 Certificates only, all claims by the Trustee (or the Delegate acting in the name and on behalf of the Trustee) against Riyad Bank under the Transaction Documents (including, without limitation, any claim in relation to any unsatisfied payment obligation of Riyad Bank under the Transaction Documents) shall be subject to, and shall be superseded by the provisions of Condition 12, irrespective of whether the relevant Non-Viability Event occurs prior to or after the event which is the subject matter of the claim, provided that nothing in these Conditions shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Delegate or the rights and remedies of the Delegate in respect thereof, all of which shall accordingly remain unsubordinated.

18 Replacement of Definitive Certificates

Should any definitive Certificate be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar (and if the Certificates are then admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent or Transfer Agent in any particular place, the Paying Agent or Transfer Agent having its specified office in the place required by such competent authority, stock exchange and/or quotation system), subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Paying Agent or the Transfer Agent may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

19 Notices

All notices to Certificateholders will be valid if:

(a) published in a daily newspaper having general circulation in the United Kingdom (which is expected to be the *Financial Times*) approved by the Delegate or, in case such publication is not practicable, in a leading English language newspaper having general circulation in Europe approved by the Delegate; or

(b) mailed to them by first class pre-paid registered mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective registered addresses.

The Trustee shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any listing authority, stock exchange and/or quotation system (if any) by which the Certificates have then been admitted to listing, trading and/or quotation including publication on the website of the relevant listing authority, relevant stock exchange or relevant quotation system if required by those rules. Any notice shall be deemed to have been given on the day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of the first publication.

Until such time as any definitive Certificates are issued, there may, so long as any Global Certificate representing the Certificates is held on behalf of one or more clearing systems, be substituted for such publication in such newspaper(s) or such website(s) the delivery of the relevant notice to the relevant clearing systems for communication by them to the Certificateholders and, in addition, for so long as any Certificates are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published on the website of the relevant stock exchange or relevant authority and/or in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the Certificateholders on the day after the day on which the said notice was given to the relevant clearing systems.

Notices to be given by any Certificateholder shall be in writing and given by lodging the same with the Principal Paying Agent. Whilst any of the Certificates are represented by a Global Certificate held on behalf of one or more clearing systems, such notice may be given by any holder of a Certificate to the Principal Paying Agent through the clearing system in which its interest in the Certificates is held in such manner as the Principal Paying Agent and the relevant clearing system may approve for this purpose.

20 Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination

20.1 The Master Declaration of Trust contains provisions for convening meetings of Certificateholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of any of these Conditions or the provisions of the Declaration of Trust. The quorum at any meeting for passing an Extraordinary Resolution will be one or more Eligible Persons (as defined in the Master Declaration of Trust) present holding or representing in the aggregate more than 50 per cent. of the then outstanding aggregate face amount of the Certificates, or at any adjourned such meeting, one or more Eligible Persons present whatever the outstanding face amount of the Certificates held or represented by him or them, except that any meeting the business of which includes the modification of certain provisions of the Certificates (including modifying the Scheduled Dissolution Date, reducing or cancelling any amount payable in respect of the Certificates or altering the currency of payment of the Certificates or amending Condition 3, Condition 5 and certain covenants given by Riyad Bank in the Transaction Documents), the quorum shall be one or more Eligible Persons present holding or representing not less than two-thirds in the outstanding face amount of the Certificates, or at any adjourned such meeting one or more Eligible Persons present holding or representing not less than one-third in the outstanding face amount of the Certificates. The expression "**Extraordinary Resolution**" is defined in the Master Declaration of Trust to mean any of (a) a resolution passed at a meeting duly convened and held by a majority consisting of not less than 75 per cent. of the votes cast, (b) a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in face amount of the Certificates or (c) consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Delegate) by or on behalf of not less than 75 per cent. in the face amount of the Certificates for the time being outstanding.

20.2 The Delegate may, subject to these Conditions, agree, without the consent or sanction of the Certificateholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Declaration of Trust or the Agency Agreement, or determine, without any such consent or sanction as aforesaid, that any Dissolution Event or an event which, with the giving of notice, lapse of time, determination of materiality or fulfilment of any other applicable condition (or any combination of the foregoing), would constitute a Dissolution Event shall not be treated as such if, in the opinion of the Delegate, (a) such modification is of a formal, minor or technical nature, (b) such modification is made to correct a manifest error or (c) such modification, waiver, authorisation or determination is not, in the opinion of the Delegate, materially prejudicial to the interests of the Certificateholders and is other than in respect of a Reserved Matter (as defined in the Master Declaration of Trust). No such direction or request will affect a previous consent, waiver, authorisation or determination.

20.3 In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Delegate shall have regard to the general interests of the Certificateholders as a class (but shall not have regard to any interests arising from circumstances particular to individual Certificateholders (whatever their number) and, in particular, but without limitation, shall not have regard to the consequences of any such exercise for individual Certificateholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof) and the Delegate shall not be entitled to require, nor shall any Certificateholder be entitled to claim from the Delegate or any other person, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Certificateholders.

20.4 Subject to Condition 11.9 in relation to Tier 2 Certificates, any modification, abrogation, waiver, authorisation or determination shall be binding on all the Certificateholders and shall be notified to the Certificateholders as soon as practicable thereafter in accordance with Condition 19.

21 Indemnification and Liability of the Delegate and the Trustee

21.1 The Declaration of Trust contains provisions for the indemnification of each of the Delegate and the Trustee in certain circumstances and for its relief from responsibility, including provisions relieving it from taking action, unless indemnified and/or secured and/or prefunded to its satisfaction, as well as provisions entitling the Delegate to be paid its costs and expenses in priority to the claims of the Certificateholders.

21.2 Neither the Delegate nor the Trustee makes any representation and assumes no responsibility for the validity, sufficiency or enforceability of the obligations of Riyad Bank under the Transaction Documents and shall not under any circumstances have any liability or be obliged to account to the Certificateholders in respect of any payments which should have been made by Riyad Bank but are not so made and shall not in any circumstances have any liability arising from or in relation to the Trust Assets other than as expressly provided in these Conditions or in the Declaration of Trust.

21.3 Each of the Trustee and the Delegate is exempted from (a) any liability in respect of any loss or theft of the Trust Assets or any cash, (b) any obligation to insure the Trust Assets or any cash and (c) any claim arising from the fact that the Trust Assets or any cash are held by or on behalf of the Trustee or on deposit or in an account with any depositary or clearing system or are registered in the name of the Trustee or its nominee, unless such loss or theft arises as a result of wilful default by the Trustee or the Delegate, as the case may be.

21.4 The Declaration of Trust also contains provisions pursuant to which the Delegate is entitled, *inter alia*, (a) to enter into business transactions with Riyad Bank and/or any of its Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to Riyad Bank and/or any of its Subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Certificateholders and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

22 Further Issues

In respect of any Series, the Trustee may from time to time (but subject always to the provisions of the Master Declaration of Trust) without the consent of the Certificateholders create and issue additional Certificates having the same terms and conditions as the outstanding Certificates of such Series or terms and conditions which are the same in all respects save for the date and amount of the first payment of the Periodic Distribution Amount and the date from which Periodic Distribution Amounts start to accrue, and so that the same shall be consolidated and form a single Series with the outstanding Certificates of such Series. Any additional Certificates which are to form a single Series with the outstanding Certificates of a particular Series shall be constituted by a deed supplemental to the Declaration of Trust. References in these Conditions to the Certificates include (unless the context requires otherwise) any other Certificates issued pursuant to this Condition and forming a single Series with such Certificates.

23 Contracts (Rights of Third Parties) Act 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of these Conditions, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

24 Governing Law and Dispute Resolution

24.1 Governing Law

The Declaration of Trust, the Certificates and these Conditions (including the remaining provisions of this Condition 24) and any non-contractual obligations arising out of or in connection with the Declaration of Trust, the Certificates and these Conditions are governed by, and shall be construed in accordance with, English law, except that the provisions of Conditions 3.2, 3.3 and 3.4 (and related provisions of the Declaration of Trust), clause 4.2(ii) of the Purchase Undertaking and clause 8.2(ii) of the Servicing Agency Agreement relating to subordination and set-off of the Tier 2 Certificates, are governed by the laws and regulations of Saudi Arabia.

24.2 Arbitration

The Delegate, the Trustee and Riyad Bank have in the Declaration of Trust, the Certificates and these Conditions agreed that, subject to the provisions of Condition 24.3, any dispute, claim, difference or controversy arising out of, relating to or having any connection with the Declaration of Trust, the

Certificates and these Conditions (which includes these Conditions and this Condition 24.2 (including any dispute as to their existence, validity, interpretation, performance, breach or termination of the Declaration of Trust or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with them) (a "**Dispute**") shall be referred to and finally resolved by arbitration in accordance with the Arbitration Rules of the LCIA (the "**Rules**"), which Rules (as amended from time to time) are incorporated by reference into this Condition 24. For these purposes:

(a) the seat of arbitration shall be London;

(b) there shall be three arbitrators, each of whom shall be an attorney experienced in international securities transactions. The claimant(s), irrespective of number, shall nominate jointly one arbitrator; the respondent(s), irrespective of number, shall nominate jointly the second arbitrator, and a third arbitrator (who shall act as presiding arbitrator) shall be nominated by the arbitrators nominated by or on behalf of the claimant(s) and respondent(s) or, in the absence of agreement on the third arbitrator within 30 days of the date of nomination of the later of the two party-nominated arbitrators to be nominated, the third arbitrator shall be chosen by the LCIA Court (as defined in the Rules); and

(c) the language of the arbitration shall be English.

24.3 Service of Process

Each of the Trustee and Riyad Bank has in the Declaration of Trust, the Certificates and these Conditions appointed Maples and Calder at its registered office at 11th Floor, 200 Aldersgate Street, London EC1A 4HD as its agent for service of process and has undertaken that, in the event of Maples and Calder ceasing so to act or ceasing to be registered in England, it will appoint another person notified to the Delegate as its agent for service of process in England in respect of any proceedings relating to a Dispute ("**Proceedings**") or Disputes. Nothing herein shall affect the right to serve proceedings in any matter permitted by law.

24.4 Waiver of Immunity

Under the Declaration of Trust, the Certificates and these Conditions, Riyad Bank has agreed that, to the extent that it may claim for itself or its assets or revenues immunity from jurisdiction, enforcement, prejudgment proceedings, injunctions and all other legal proceedings and relief and to the extent that such immunity (whether or not claimed) may be attributed to it or its assets or revenues, it will not claim and has irrevocably and unconditionally waived such immunity in relation to any Proceedings or Disputes. Further, Riyad Bank has irrevocably and unconditionally consented to the giving of any relief or the issue of any legal proceedings, including, without limitation, jurisdiction, enforcement, prejudgment proceedings and injunctions in connection with any Proceedings or Disputes.

24.5 Waiver of Interest

Each of the Trustee, the Delegate and Riyad Bank has agreed in the Declaration of Trust, the Certificates and these Conditions that no interest will be payable or receivable under or in connection with the Certificates and if it is determined that any interest is payable or receivable in connection with these Certificates by the Trustee, Riyad Bank or the Delegate, whether as a result of any arbitral award or by operation of any applicable law or otherwise, the Trustee, Riyad Bank and the Delegate will waive any rights it may have to claim or receive such interest and if any such interest is actually received by it, it will promptly donate the same to a registered or otherwise officially recognised charitable organisation.

USE OF PROCEEDS

The net proceeds of each Tranche of Certificates issued will be paid by the Trustee (as Purchaser) to the Seller for the purchase from the Seller of all of its rights, title, interests, benefits and entitlements in, to and under (in the case of the first Tranche of the relevant Series of Certificates) the relevant Initial Portfolio, and (in the case of any subsequent Tranche of such Series) the relevant Additional Portfolio.

DESCRIPTION OF THE TRUSTEE

General

Riyad Sukuk Limited, a Cayman Islands exempted company with limited liability, was incorporated on 6 June 2018 under the Companies Law (2018 Revision) of the Cayman Islands with company registration number 338136. The Trustee has been established as a special purpose vehicle for the sole purpose of issuing Certificates under the Programme and entering into the transactions contemplated by the Transaction Documents. The registered office of the Trustee is at MaplesFS Limited, P.O. Box 1093, Queensgate House, Grand Cayman KY1-1102, Cayman Islands and its telephone number is +1 345 945 7099.

The authorised share capital of the Trustee is U.S.$50,000 divided into 50,000 ordinary shares of U.S.$1.00 par value each, 250 of which have been issued. All of the issued shares (the "**Shares**") are fully- paid and are held by MaplesFS Limited as share trustee (the "**Share Trustee**") under the terms of a share declaration of trust (the "**Share Declaration of Trust**") dated 6 February 2020 under which the Share Trustee holds the Shares in trust until the Termination Date (as defined in the Share Declaration of Trust). Prior to the Termination Date, the trust is an accumulation trust, but the Share Trustee has the power to benefit Qualified Charities (as defined in the Share Declaration of Trust). It is not anticipated that any distribution will be made whilst any Certificate is outstanding. Following the Termination Date, the Share Trustee will wind up the trust and make a final distribution to charity. The Share Trustee has no beneficial interest in, and derives no benefit (other than its fee for acting as Share Trustee) from, its holding of the Shares.

Business of the Trustee

The Trustee has no prior operating history or prior business and will not have any substantial liabilities other than in connection with the Certificates to be issued under the Programme. The Certificates are the obligations of the Trustee alone and not the Share Trustee.

The objects for which the Trustee is established are set out in clause 3 of its Memorandum of Association as registered or adopted on 6 June 2018.

Financial Statements

Since the date of its incorporation, no financial statements of the Trustee have been prepared. The Trustee is not required by Cayman Islands law, and does not intend, to publish audited financial statements.

Directors of the Trustee

The Directors of the Trustee are as follows:

Name	Principal Occupation
Stacy Bodden	Vice President at MaplesFS Limited
John Curran	Assistant Vice President, Fiduciary at Maples Fund Services (Middle East) Limited

The business address of John Curran is c/o Maples Fund Services (Middle East) Limited, Level 14, Burj Daman, Dubai International Financial Centre, P.O. Box 506734, Dubai, United Arab Emirates.

The business address of Stacy Bodden is c/o MaplesFS Limited, P.O. Box 1093, Boundary Hall, Cricket Square, Grand Cayman, KY1-1102, Cayman Islands.

There are no potential conflicts of interest between the private interests or other duties of the Directors listed above and their duties to the Trustee.

The Administrator

MaplesFS Limited acts as the administrator of the Trustee (in such capacity, the "**Trustee Administrator**"). The office of the Trustee Administrator serves as the general business office of the Trustee. Through the office, and pursuant to the terms of the Corporate Services Agreement, the Trustee Administrator has agreed to perform in the Cayman Islands, or such other jurisdiction as may be agreed by the parties from time to time, various management functions on behalf of the Trustee and the provision of certain clerical, administrative and other services until termination of the Corporate Services Agreement. The Trustee Administrator will also provide registered office services to the Trustee in accordance with its standard terms and conditions for the provision of registered office services as published at http://www.maples.com/terms (the "**Registered Office Terms**"). In consideration of the foregoing, the Trustee Administrator receives various fees payable by the Trustee at rates agreed upon from time to time, plus expenses. The terms of the Corporate Services Agreement and the Registered Office Terms provide that either the Trustee or the Trustee Administrator may terminate such appointments upon the occurrence of certain stated events, including any breach by the other party of its obligations under such agreements. In addition, the Corporate Services Agreement and the Registered Office Terms provide that either party shall be entitled to terminate such agreements by giving at least three months' notice in writing to the other party with a copy to any applicable rating agency.

The Trustee Administrator is subject to the overview of the Trustee's Board of Directors.

The Trustee Administrator's principal office is P.O. Box 1093, Boundary Hall, Cricket Square, Grand Cayman KY1-1102, Cayman Islands.

The Directors of the Trustee are all employees or officers of the Trustee Administrator (or an affiliate thereof). The Trustee has no employees and is not expected to have any employees in the future.

Cayman Islands Data Protection

The Cayman Islands Government enacted the Data Protection Law, 2017 of the Cayman Islands (the "**DPL**") on 18 May 2017 which was brought into force on 30 September 2019. The DPL introduces legal requirements for the Trustee based on internationally accepted principles of data privacy.

Prospective investors should note that, by virtue of making investments in the Certificates and the associated interactions with the Trustee and its affiliates and/or delegates, or by virtue of providing the Trustee with personal information on individuals connected with the investor (for example directors, trustees, employees, representatives, shareholders, investors, clients, beneficial owners or agents) such individuals may be providing the Trustee and its affiliates and/or delegates (including, without limitation, the Trustee Administrator) with certain personal information which constitutes personal data within the meaning of the DPL. The Trustee shall act as a data controller in respect of this personal data and its affiliates and/or delegates, such as the Trustee Administrator, may act as data processors (or data controllers in their own right in some circumstances).

For further information on the application of the DPL to the Trustee, please refer to the Privacy Notice (a copy of which may be requested from the Trustee Administrator by email at dubai@maples.com), which provides an outline of investors' data protection rights and obligations as they relate to the investment in the Certificates.

Oversight of the DPL is the responsibility of the Ombudsman's office of the Cayman Islands. Breach of the DPL by the Trustee could lead to enforcement action by the Ombudsman, including the imposition of remediation orders, monetary penalties or referral for criminal prosecution.

SELECTED FINANCIAL INFORMATION

The following information has been extracted from, and should be read in conjunction with, and is qualified in its entirety by reference to, the Financial Statements and should also be read in conjunction with "Financial review". See also "Presentation of financial and other information" for a discussion of the sources of the numbers contained in this section.

Consolidated Statement of Financial Position Data

The table below shows the Group's consolidated statement of financial position data as at 31 December in each of 2019, 2018 and 2017.

	As at 31 December		
	2019	**2018**	**2017**
		(*SAR million*)	
Assets			
Cash and balances with SAMA	29,189.5	16,323.2	18,504.3
Due from banks and other financial institutions	4,734.9	11,029.2	9,372.2
Positive fair value of derivatives	608.8	286.6	115.9
Investments, net	53,361.4	47,992.8	46,369.9
Loans and advances, net	173,982.0	151,024.8	138,837.6
Investments in associates	702.9	595.5	564.8
Other real estate	233.1	227.4	235.1
Property and equipment, net	2,201.9	1,699.5	1,752.4
Other assets	774.4	720.6	530.0
Total assets	265,788.9	229,899.6	216,282.2
Liabilities and shareholders' equity			
Liabilities			
Due to banks and other financial institutions	13,124.5	8,580.5	7,056.2
Negative fair value of derivatives	649.2	274.3	77.9
Customer deposits	194,517.9	169,822.2	154,365.5
Debt securities in issue	4,003.0	4,003.8	8,016.6
Other liabilities	12,922.8	10,444.6	8,142.9
Total liabilities	225,217.4	193,125.4	177,659.2
Shareholders' equity			
Share capital	30,000.0	30,000.0	30,000.0
Statutory reserve	6,502.1	5,101.6	3,922.6
Other reserves	1,027.1	58.0	686.9
Retained earnings	1,392.2	414.6	2,873.5
Proposed dividends	1,650.0	1,200.0	1,140.0

	As at 31 December		
	2019	2018	2017
Total shareholders' equity	40,571.5	36,774.2	38,623.0
Total liabilities and shareholders' equity	265,788.9	229,899.6	216,282.2

Consolidated Statement of Income and Statement of Comprehensive Income Data

The table below shows the Group's consolidated Statement of Income data for each of 2019, 2018 and 2017.

	2019	2018 (Restated)	2017[1]
		(SAR million)	
Special commission income	10,371.4	8,332.4	7,425.1
Special commission expense	2,534.4	1,703.9	1,490.0
Net special commission income	7,837.0	6,628.5	5,935.1
Fees and commission income, net	2,030.7	1,711.1	1,510.3
Exchange income, net	342.7	292.6	290.2
Trading income, net	132.8	104.6	21.8
Dividend income	102.9	57.5	50.8
Gains on disposal of non-trading investments, net	255.5	130.3	283.1
Other operating income	15.5	42.9	33.9
Total operating income, net	10,717.1	8,967.4	8,125.2
Salaries and employee-related expense	1,879.0	1,765.2	1,572.5
Rent and premises-related expenses	200.2	327.6	320.5
Depreciation of property and equipment	439.0	296.9	282.2
Other general and administrative expenses	1,035.7	926.3	775.8
Other operating expenses	120.2	31.4	23.8
Total operating expenses before impairment charge	3,674.1	3,347.4	2,974.8
Impairment charge for credit losses and other financial assets, net[2]	1,012.3	927.8	1,227.5
Impairment (reversal) charge for investments, net	(48.0)	26.9	—
Total operating expenses, net	4,638.3	4,302.1	4,202.3
Net operating income	6,078.7	4,665.3	3,922.9
Share in earnings of associates, net	153.3	50.8	23.1
Net income for the year before Zakat	6,232.1	4,716.1	[3]
Zakat for the year	630.0	430.2	[3]

	2019	2018 (Restated)	2017[1]
Zakat for the previous years	0.0	1,193.6	[3]
Total Zakat	630.0	1,623.8	[3]
Net income for the year	5,602.1	3,092.3	3,946

Note:

(1) Financial information for 2017 has been represented in accordance with the presentation in the 2018 Financial Statements. Had Zakat been accounted for through the income statement (as in 2019 Financial Statements) in 2017, the Zakat charge for 2017 through the income statement would have been SAR 500 million and the net income for that year would have been SAR 3,446.0 million.

(2) Presented as impairment charge for credit losses and other provisions in the 2018 Financial Statements.

(3) Not applicable.

The table below shows the Group's consolidated statement of comprehensive income data for each of 2019, 2018 and 2017.

	2019	2018	2017
		(SAR million)	
Net income for the year	5,602.1	3,092.3	3,946.0
Other comprehensive income:			
Net change in fair values – FVOCI debt instruments	1,106.0	(579.1)	422.2
Net amounts transferred to consolidated statement of income – FVOCI debt instruments	(235.6)	(109.6)	(268.3)
Net changes in allowance for expected credit losses (ECL) of FVOCI debt instruments	(17.3)	19.8	—
Actuarial (losses)/gains on defined benefit plans	(149.5)	1.6	
Net change in fair value of equity instruments at fair value through other comprehensive income	251.6	101.2	
Other comprehensive income (loss) for the year	955.2	(566.1)	153.9
Total comprehensive income for the year	6,557.2	2,526.2	4,099.9

Summary Consolidated Statements of Cash Flows Data

The table below summarises the Group's consolidated statement of cash flows data for each of 2019, 2018 and 2017.

	2019	2018	2017
		(SAR million)	
Net cash from operating activities	12,191.1	10,654.7	2,582.9
Net cash used in investing activities	(3,404.7)	(3,116.1)	(531.9)

	2019	2018	2017
Net cash used in financing activities	(2,757.6)	(6,246.4)	(1,982.2)
Cash and cash equivalents at 1 January	17,443.9	16,151.6	16,082.8
Cash and cash equivalents at 31 December	23,472.7	17,443.9	16,151.6

Selected Consolidated Ratios

The table below contains information relating to selected consolidated ratios of the Group. These ratios are presented in this Offering Circular because the Group considers them an important supplemental measure of the Group's operating performance and financial position and the Group believes they may be used by securities analysts, investors and other interested parties in the evaluation of banks in the banking industry. None of the information in the table below has been audited or reviewed by the Auditors. See further "*Presentation of Financial and other information—Presentation of financial information—Certain non-IFRS financial information*".

The table below shows selected consolidated ratios for the Group as at, and for the years ended, 31 December in each of 2019, 2018 and 2017.

	As at/years ended 31 December		
	2019	2018	2017
		(per cent.)	
Performance measures			
Return (after Zakat) on assets[(1)]	2.1	1.3	1.6
Return (after Zakat) on equity[(2)]	13.8	8.4	8.9
Expenses to income ratio[(3)]	34.3	37.3	36.6
Net special commission margin[(4)]	3.48	3.33	2.97
Asset quality			
NPL ratio[(5)]	0.9	1.0	1.0
Loan loss coverage ratio[(6)]	177.3	151.1	147.6
Liquidity coverage ratio[(7)]	155	121	142
Loans to deposits ratio[(8)]	87.6	86.9	85.5
Other ratios			
CET 1 capital adequacy ratio[(7)]	16.3	16.1	17.3
Tier 1 capital adequacy ratio[(7)]	16.3	16.1	17.3
Total capital adequacy ratio[(7)]	18.1	18.1	19.6
Equity to total assets ratio[(9)]	15.3	16.0	17.9
Leverage ratio[(7)]	12.2	12.4	13.6

Notes:

(1) Net income for the year divided by total assets at the end of the period. The ratio for 2017 assumes that SAR 500 million was charged to the income statement in respect of Zakat.

(2) Net income for the year divided by total shareholders' equity at the end of the period. The ratio for 2017 assumes that SAR 500 million was charged to the income statement in respect of Zakat.

(3) Total operating expenses, net (excluding impairment charge for credit losses and other provisions, net and impairment charge for investments, net) divided by total operating income, net.

(4) Net special commission income divided by average interest earning assets for the period, with average interest earning assets calculated as the daily average for the period. Interest earning assets comprise loans and advances, net, investments, net and due from banks and other financial institutions.

(5) Non-performing loans and advances as a percentage of total loans and advances, each as set out in note 8(a) to the 2019 Financial Statements and note 8(a) to the 2018 Financial Statements.

(6) Allowance for impairment (as set out in note 8(a) to the 2019 Financial Statements and note 8(a) to the 2018 Financial Statements) as a percentage of NPLs.

(7) Calculated in accordance with Basel III as implemented in Saudi Arabia.

(8) Total loans and advances, net divided by the sum of customer deposits and debt securities in issue.

(9) Total shareholders' equity at the end of the period divided by total assets at the same date.

DESCRIPTION OF THE GROUP

Overview

The Bank was the first joint stock banking company to be established in Saudi Arabia. It is the fourth largest bank in Saudi Arabia in terms of consolidated total assets, which amounted to SAR 250.6 billion, as at 30 September 2019.

The Group offers a wide range of banking products and financial services to individuals, small - and medium-sized enterprises ("**SMEs**") and large businesses. Its principal divisions are organised in accordance with business segments differentiated by the type of customer and service involved. The Group's principal business segments are:

- retail banking, which provides services to approximately 1.7 million retail and SME customers in Saudi Arabia;
- corporate banking, serving institutional banking, corporate, and government customers in Saudi Arabia;
- treasury and investment; and
- investment banking and brokerage (which is provided through a wholly- owned subsidiary, Riyad Capital, in accordance with Saudi Arabian regulatory requirements).

The Group also offers a range of Islamic banking products across these segments.

The Bank principally operates through 341 branches in Saudi Arabia, its London branch, an agency in Houston and a representative office in Singapore.

As at 31 December 2019, the Group's total shareholders' equity was SAR 40,571 million and its total assets were SAR 265,789 million. The Group generated a total operating income, net of SAR 10,717 million and had a net income for the year of SAR 5,602 million in 2019, compared to the total operating income, net of SAR 8,967 million and net income for the year of SAR 3,092 million in 2018. As at 31 December 2019, the Group's common equity tier 1 and total capital adequacy ratios, calculated in accordance with Basel III as implemented in Saudi Arabia, were 16.3 per cent. and 18.1 per cent., respectively, compared to 16.1 per cent. and 18.1 per cent., respectively, as at 31 December 2018.

The Bank's shares are currently traded on the Saudi Stock Market ("**Tadawul**"). As at 31 December 2019, the Bank's total market capitalisation was SAR 72.0 billion.

History

The Bank is a joint stock company incorporated under the laws of Saudi Arabia. It was established by the Royal Decree and Council of Ministers' Resolution No. 91 dated 23 November 1957 with registered number 1010001054. The Bank operates under a banking licence granted by SAMA, which permits it to operate as a commercial bank. It is authorised under its by-laws to conduct all types of banking activities within Saudi Arabia and abroad. The Bank's head office is located at Riyadh – Al Shuhada District – Eastern ring road – Granada Oasis – Tower (A1), P.O. Box 22622, Riyadh 11416, Kingdom of Saudi Arabia, and its telephone number is +966-011-401-3030.

The Bank's London branch was established in 1983. In 1990, the Bank also established a representative office in Singapore and an agency in Houston, USA.

The Bank's shares were floated on Tadawul in 1991. In 2005, it increased its share capital to SAR 5.0 billion and the share capital was further increased to SAR 6.25 billion in 2006. In 2008, Riyad Capital was formed to conduct the Group's investment banking and brokerage services and the Bank's share capital was further increased to SAR 15 billion. The Bank secured SAMA licences to provide mortgages and conduct auto leasing activities in 2013. In 2014, its capital was increased to SAR 30 billion. In 2017, it established a Cayman Islands subsidiary to execute derivative transactions with international counterparties on behalf of the Bank and, in 2018, it launched a five-year transformation programme with the aim of becoming the most efficient and profitable bank in the Kingdom through improving sales productivity across new and existing channels and emerging segments.

In December 2018, Riyad Bank announced that it had started preliminary discussions with National Commercial Bank with respect to a possible merger of the two banks. In December 2019, the board of directors of Riyad Bank decided to discontinue discussions in connection with the possible merger.

The Bank's ability to deliver a strong performance has been acknowledged by third parties through a number of awards, including:

- 2019 – Best Trade Finance Bank (*Global Business Outlook*);
- 2019 – Best Leadership Development Program (*GCC GOV HR AWARDS*);
- 2019 – Tier 3 certificate (*Uptime Institute*);
- 2019 – Excellence in Resourcing, Retention and Award in Talent Management (*International Finance*);
- 2019 – ISO 22301 certificate in continuity management systems (*EUROCERT*); and
- 2019 – Best Bank in Saudi Arabia for 2018 (*Kafalah Program*).

Strategy

The Bank's vision is to be the most innovative and trusted financial solutions partner.

The Bank's strategy and annual business plans are submitted to its Board of Directors' Strategic Planning Group for direction and agreement and are subsequently approved by the Board of Directors (the "**Board**"). The Bank has a five-year strategic plan that is reviewed annually as part of the annual planning cycle.

Each annual strategy update and the associated annual operational plan are formulated after careful consideration of, among other matters:

- relevant internal and external economic forecasts;
- recent and anticipated market trends;
- a financial comparison of the Bank's peer group, which currently comprises Al Rajhi Bank and National Commercial Bank, although the Bank also considers Al Inma Bank, Saudi British Bank, Samba Financial Group and Banque Saudi Fransi; and
- an analysis of the Bank's strengths and weaknesses and the opportunities and threats which it faces (a "**SWOT analysis**").

Reflecting the above analysis, key business and support strategic focus areas are identified along with major initiatives that are expected to address weaknesses and threats and to capitalise on the strengths and opportunities identified from the SWOT analysis.

The key element of the Bank's 2019 operational plan is to continue implementing its five-year transformation plan, which is summarised in "*Strengths – Transformation Plan*" below, by:

- focusing on customers by providing corporate and retail customers with products and services tailored to their needs. To ensure customers are at the centre of all operations, customer satisfaction has become a shared measure across each of the Bank's departments and divisions;
- improving productivity and therefore driving revenue, balance sheet growth and customer satisfaction through a series of strategic initiatives developed with input from strategic advisers. These initiatives focus on corporate banking account planning and outreach, SME expansion and retail branch transformation to improve productivity across the Bank's existing segments and any new segments;
- driving innovation through focusing on digital banking solutions and the customer experience in order to attract and serve the Bank's target clients. This is being supplemented and complemented by an operational review to improve efficiency and customer service at all touch points; and
- enhancing the organisational health of the Bank through addressing strategic clarity, performance management and the Bank's employee proposition, including building a strong feedback and coaching culture, reviewing the Bank's procedures to link performance directly to rewards, improving the performance management processes, and launching new learning and development initiatives to enable the employees to win new business.

Strengths

Key strengths of the Group highlighted by its rating agencies are a strong capital position, sound asset quality, a strong liquidity and funding position, resilient operating income with stable margins, improved diversification through an expanding retail book and a well-established domestic franchise underpinned by a large branch network and reasonable market shares in both corporate and retail banking.

The Bank believes that the Group's principal strengths are:

Excellent Government and corporate relationships

In part, reflecting the fact that the Government is a shareholder in the Bank, the Bank currently provides services to approximately 70 per cent. of all Government entities in the Kingdom and it has a banking relationship with approximately 50 per cent. of listed corporations in the Kingdom.

Strong and well-capitalised balance sheet and solid income statement fundamentals

The Group has solid and stable capital adequacy ratios. Its Basel III total capital ratio was 18.1 per cent. as at 31 December 2019, 18.1 per cent. as at 31 December 2018 and 19.6 per cent. as at 31 December 2017 and its Basel III tier 1 capital ratio was 16.3 per cent. as at 31 December 2019, 16.1 per cent. as at 31 December 2018 and 17.3 per cent. as at 31 December 2017. The Group's net income for the year was SAR 5,602 million in 2019, SAR 3,092 million in 2018 and SAR 3,496 million in 2017 (unadjusted for Zakat).The Group's profitability is also supported by an efficient cost structure (its expense to income ratio was 34.3 per cent. as at 31 December 2019, 37.3 per cent. as at 31 December 2018 and 36.6 per cent. as at 31 December 2017).

Well positioned for growth in line with and to support the Saudi Vision 2030

The Group believes that it is well positioned to gain from the implementation of the Government's Saudi Vision 2030. Key aspects of this vision include:

- diversification of the Saudi Arabian economy away from its historical reliance on the hydrocarbon sector, as well as opening the Saudi Arabian economy and developments which the Bank believes it is well placed to exploit given its solid position in trade finance, the strong franchise of its subsidiary, Riyad Capital, and its risk appetite which takes into account increased demand for funding from entities in non-oil sectors such as entertainment, tourism and hospitality, which are all focus sectors for the Bank;
- strengthening the private sector and promoting SMEs, another area where the Bank believes that it is well positioned given its strategic focus on expanding its SME business and its position as a bank to approximately 50 per cent. of all private sector Saudi corporations listed on the Tadawul;
- increasing home ownership, which the Bank believes it will be able to exploit given the fact that it has the third largest branch network in the Kingdom and in light of its significant focus on developing its mortgage business, including through partnerships with developers;
- a focus on developing digital infrastructure, which is an important element of the Bank's strategy; and
- the creation of new job opportunities, particularly for women, which should benefit the Bank as it already has the highest female workforce penetration in the Saudi Arabian banking sector.

Strong liquidity

The Group benefits from a strong liquidity position, with its Basel III liquidity coverage ratio at 155 per cent. as at 31 December 2019 compared to 121 per cent. as at 31 December 2018 and 142 per cent. as at 31 December 2017. The Bank's net loans/customer deposits (including debt securities in issue) ratio was 87.6 per cent. as at 31 December 2019, 86.9 per cent. as at 31 December 2018 and 85.5 per cent. as at 31 December 2017. The customer deposits have increased year-on-year by 14.8 per cent. from SAR 169 billion in 2018 to SAR 194 billion in 2019.

Strong Board and management team

The Bank's Board comprises 10 members with wide ranging experience. The current Chairman, who was appointed in October 2016, has been a Board member since 2007 and two other members have more than five years' experience on the Board. The Bank's Board includes persons who are members of the Boards of Directors of prominent Saudi Arabian companies, such as Saudi Basic Industries Corporation ("**SABIC**"), Saudi Arabian Mining Company ("**Ma'aden**"), Saudi Aramco and Saudi Telecom Company ("**STC**").

Certain members, including the current CEO who was appointed CEO in 2016, have been with the Bank for more than 10 years. The Bank believes that its management has strong expertise and knowledge of the local market. The Bank's Board and senior management team are described in more detail under "*Management and employees*".

Transformation plan

In order to address the performance gaps within the Bank and make the most of the opportunities available in the Kingdom, the Bank has initiated a transformation of four key areas with the objective of becoming the most efficient and profitable bank in the Kingdom by 2022. There are four key areas of focus in the transformation plan:

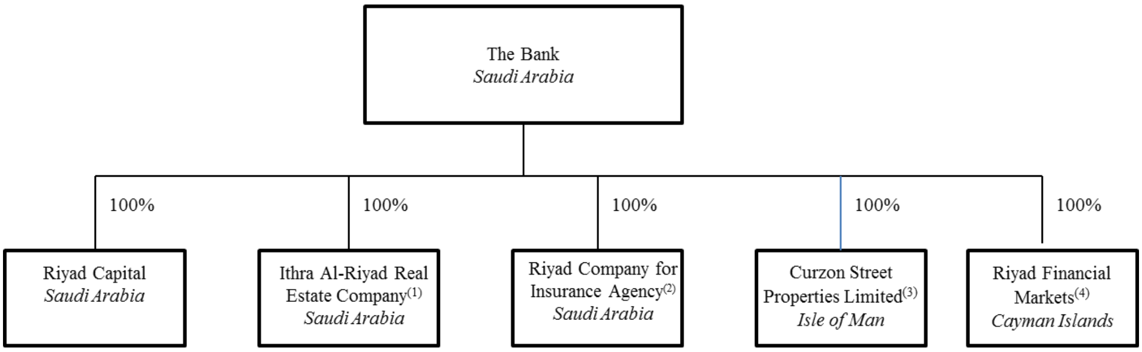
- focusing on customers through providing products for retail and corporate customers that meet all their needs. Customer satisfaction is the main measure of success in each of the Bank's departments;
- retail and corporate sales, where the plan targets significantly increased productivity across new and existing sales channels and in emerging segments, and increasing the return of capital on the corporate portfolio through institutionalised account planning and an enhanced focus on the SME and commercial segments;

- innovation, which targets increased sales through digitalisation, leveraging advanced analytics and developing new corporate partnerships to generate new and high-quality opportunities; and
- organisational health, which comprises a focus on performance management and improving strategic and role clarity across the Group.

Group Structure and Shareholders

Group structure

The chart below shows the Bank and its consolidated subsidiaries as at 31 December 2019.



Notes:

(1) This company holds, manages, sells and purchases real estate assets for owners or third parties for financing activities.

(2) This company acts as an agent for selling insurance products owned and managed by another insurance company.

(3) This company is a special purpose company incorporated to acquire the Bank's London branch's premises.

(4) This company executes derivative transactions with international counterparties on behalf of the Bank.

Shareholders

The table below shows the shareholders which owned more than 5 per cent. of the Bank's share capital as at 31 December 2019.

	Percentage of issued share capital
PIF	21.75
GOSI	16.72
Al Nahla Trading and Contracting Company	8.73
Assila Investment Company	8.00
Other shareholders	44.80
	100.00

The PIF and the GOSI are Government controlled entities, which gives the Government an indirect holding of 38.47 per cent. of the Bank's shares as at 31 December 2019.

Business

Reporting segments

Prior to 2018, the Group had five reporting segments, four of which corresponded to its principal operating businesses and were:

Retail Banking – which comprises a range of products and services designed for individual customers and SMEs, including time deposits, current, call and savings accounts, credit cards, retail investment products and individual and consumer loans;

Corporate Banking – which comprises a range of products and services designed for corporate customers, including time deposits, current and call accounts, cash management and trade services, overdrafts, loan and other credit facilities, as well as the Group's customer derivative portfolios and its corporate advisory business;

Treasury and investments – which manages money market, foreign exchange, commission rate trading and derivatives for corporate and institutional customers, as well as for the Group's own account. Treasury is also responsible for funding the Group's operations, maintaining liquidity and managing the Group's investment portfolio and statement of financial position;

Investment banking and brokerage – which engages in wealth management, corporate investment banking, asset management and brokerage activities. This reporting segment reflects the activities of Riyad Capital described below; and

Other – the Group's fifth reporting segment comprises the activities of its head office, including finance, human resources, technology services and other support services, as well as any assets and liabilities not allocated to one of the other four reporting segments.

With effect from 1 January 2018, the "Other" reporting segment has been eliminated.

The table below shows the relative significance of each reporting segment in terms of its contribution to Group total assets, Group total liabilities and Group net income in the year ended 31 December 2019 and in each of 2018 and 2017.

	Corporate banking	**Retail banking**	**Treasury and investments**	**Investment banking and brokerage**
2019				
Total assets	46.0	26.8	26.5	0.6
Total liabilities..	46.8	38.8	14.2	0.2
Net income before Zakat	33.0	25.0	36.1	5.9
2018				
Total assets	48.0	24.7	27.1	0.5
Total liabilities..	50.0	41.6	8.3	0.2
Net income before Zakat	41.4	12.1	41.7	4.8
2017				

	Corporate banking	Retail banking	Treasury and investments	Investment banking and brokerage
Total assets	47.1	24.6	27.8	0.5
Total liabilities...	53.4	38.3	8.2	0.1
Net income(1)	34.0	22.8	39.0	4.2

Notes:

(1) Represents net income before Zakat.

Corporate banking

The Group's corporate banking business has over 2,500 clients and provides banking and financial services to approximately 50 per cent. of Saudi Arabian companies listed on the Tadawul. The principal products and services offered include a current account that offers both riyal and foreign currency options, a range of time deposit options at competitive rates, liquidity management solutions, payment and collection processing solutions, cash collection and delivery services, electronic payment solutions for merchants, automated payroll processing, a wide range of import and export services (including letters of credit ("**LCs**"), banker's acceptances, bills discounting and documentary collections) and guarantees (including standby LCs, letters of guarantee, performance guarantees, bid bonds, advance payment bonds and retention bonds).

Islamic finance is a *Shariah*-based alternative across the broad spectrum of conventional banking products. The Group believes that Islamic finance provides the most inclusive means of accessing Saudi Arabian and regional liquidity and growth in Islamic finance is being supported by product innovation and impetus from regulators across the GCC. As one of the major Islamic banking participants in the region, the Group believes that it is well- placed to enhance its role and contribution in this growing market.

The corporate banking business provides services to seven types of customers:

- multinational corporations;
- large corporations;
- commercial enterprises;
- SMEs with annual sales of SAR 3 million and above;
- non-bank financial institutions;
- financial institutions; and
- overseas corporate customers.

The Group has adopted a customer relationship management model for the first three segments, seeking to develop an extensive set of value added products and services tailored to each segment, including, in addition to standard lending and deposit products, the following:

- *Payment Products*: payroll, prepaid cards, direct credit, dividend distribution and Visa purchasing card;
- *Collection Products*: collection and e-collection, point of sale ("**POS**"), e-commerce, Riyad collect, SADAD biller, direct debit, cash deposit machines (CDMs) and cash deposit cards (CDC);
- *Liquidity Management*: sweeping and other cash solutions; and

- *Others*: escrow accounts and sale off-plan escrow accounts.

For the SME segment, the operating model offers a basket of products and services specially tailored for the SME market, including, in addition to conventional lending and deposit products, Islamic finance for short-term purposes, Islamic medium-term capital financing, short-term finance against POS collections and sight and deferred letters of credit. The Bank also provides Islamic financing for contracting, salary payments and commercial real estate, as well as credit card services.

In relation to the financial institutions and non-bank financial institutions segments, the Group's financial institutions team acts as a focal point for managing all aspects of the Group's business relationships with these customers worldwide. The Group's correspondent banking services include vostro and nostro accounts, commercial and treasury payments, Hajj and Umrah services, letters of credit, documentary collections, letters of guarantee and non-bank financial institutions services such as cash management, credit facilities, treasury products and omnibus account services.

The Group's overseas corporate customers are principally served by its international network, see "—*International operations*".

The Group has two specialised and dedicated service units that enhance its service delivery to customers:

- a mandated lead arranger for Ma'aden Bauxite Alumina Company's SAR 4 billion murabaha facility in 2018;
- a mandated lead arranger for Intercontinental Company for Technical Support Services Limited's U.S.$639 million murabaha facility in 2018;
- the Customer Strategy and Tactics Department, whose mandate is to define the targeted market and develop detailed marketing plans for each segment; and
- the Customer Services Department, which provides support in handling the customers' operational requirements.

The Group's commitment to deliver quality service to its customers is strengthened by continuous upgrading of its technology and the training provided to its staff. The Group's technology enables its customers to access their accounts and the Bank's products by way of internet banking, telephone banking and mobile banking.

The Group believes that it is one of the market leaders in syndicated lending and project finance in Saudi Arabia. Its substantial capital base enables it to play an important role in lending, underwriting and arranging large syndicated loans in various sectors, including the petrochemical, mining, telecommunications and infrastructure sectors in particular.

The Group has a leading role in arranging major credit facilities for project, corporate and asset financing in Saudi Arabia and across the other GCC states. In particular, since 2015, the Bank was:

- a mandated lead arranger for Ma'aden Aluminium Company's SAR 7 billion refinancing in 2017;
- a co-arranger for Yanbu Aramco Sinopec Refining Company's U.S.$4.7 billion financing and facility agent for its SAR 6 billion murabaha financing in 2016;
- a mandated lead arranger and murabaha facility agent for Ma'aden Phosphate Company's SAR 8.3 billion refinancing in 2016;
- the mandated lead arranger for Rabigh Refining and Petrochemical Company's U.S.$1.7 billion bank facilities in 2015; and

- the co-ordinator for Saudi Aramco's U.S.$10 billion revolving credit facilities in 2015.

Retail banking

The Group has over 1.72 million active customers using its various consumer-banking products. The Group offers a wide spectrum of retail banking products to individuals and SMEs through its network of 340 branches and over 2,500 ATMs located throughout Saudi Arabia. Many of the Group's retail banking services are also available through direct access channels such as 24-hour telephone banking, online banking and mobile banking. See "—*Delivery channels*".

The retail banking business has adopted a customer-centric approach which allows it not only to meet customer expectations, but also to respond to the rapidly evolving way in which customers want to access financial services. Retail banking also continues to invest in the design and delivery of innovative services that reflect the values of its customers and are delivered when and where its customers need them. The Group's retail banking business has prioritised investment in digital channels to improve its delivery capabilities, offer customers an innovative and convenient banking experience and maintain its competitive edge among competitors. The Group has pioneered technical innovation by introducing the "Riyad Pay" digital wallet and contactless payments options through cards and wristbands.

The Group continues to concentrate on intelligent lending and strict controls, which keeps performance healthy and steady in an otherwise challenging market.

The products and services provided by the Group's retail banking segment include deposits, consumer loans, auto leasing, mortgage finance, credit cards, debit cards, remittance services, ATMs, interactive teller machines (ITMs), kiosks, internet banking, mobile banking, Riyad Pay, Apple Pay, short messaging service (SMS) banking and telephone banking, including interactive voice recognition.

The retail banking segment also offers business banking through its versatile product and service offerings including Trade Financing, POS Financing, cash deposit cards, payroll processing, and e-services for SMEs (of value less than SAR 3 million). The SME market is rapidly expanding as the Kingdom's economy continues its strong growth and develops a broader industrial and service base through its Saudi Vision 2030 plan. This rapid expansion in the SME market has encouraged the Group's retail banking segment to invest greater resources in this sector. The Group's retail banking segment believes that it is strategically better placed than its competitors, due to (a) a large retail footprint and retail customer base, (b) well-developed digital channels, and (c) a wide range of products.

The retail banking segment continues to introduce innovative service offerings that adhere to *Shari'ah* principles, including Islamic savings accounts, Islamic overdraft accounts, Islamic personal finance, auto and real estate mortgage products. All Islamic products are reviewed and approved by an external and independent *Shari'ah* Committee, comprised of highly qualified *Shari'ah* scholars, to ensure compliance with the principles of *Shari'ah*.

The retail banking segment offers bespoke services to its high net worth private banking clients through four dedicated centres. The product offering includes sophisticated banking services, investment solutions and credit services to cater to the needs of this niche client segment.

Under the brand of "affluent banking", the Group's retail banking segment operates 'Diamond' and 'Golden' banking segments. As at 31 December 2019, the retail banking segment has 23 dedicated Diamond banking centres with exclusive relationship managers serving the needs of the Diamond banking clients. Additionally, the retail banking segment offers banking services to its Golden banking customers through a large footprint of 155 diamond banking centres.

Treasury and investments

The Group's treasury and investments business offers a wide range of products to the Group's corporate, commercial and private clients. These products include basic foreign exchange and interest rate protection, money market and government bonds and sophisticated hedging structures tailored on an individual basis.

The treasury and investments business also ensures that the Group's internal funding requirements are met and manages risks associated with liquidity, foreign exchange and interest rate exposures. See "*Financial review—Liquidity and funding—Funding*" and "*Risk management—Market risk management*".

The Group also offers a variety of *Shariah*-compliant products, including murabaha, tawaruq, Islamic return account and foreign exchange waad. The Group continues to develop new products to meet the growing needs of its customers for *Shariah*-compliant products.

The treasury and investments business also manages the Group's fixed income portfolio of fixed rate and floating rate securities, as well as the Group's equity and mutual fund investments. See "*Financial review—Investment securities portfolio*".

Derivatives are used by the Group for its own account to hedge interest rate and currency positions and for customer-related transactions and, to a limited extent, for proprietary trading.

The Group's treasury has an established limit structure covering various risk aspects, including gap limits, stop loss limits and value at risk ("**VaR**") limits. Oversight and review of these limits is provided by the Bank's asset and liability management committee ("**ALCO**").

Investment banking and brokerage – Riyad Capital

Riyad Capital is a closed joint stock company incorporated in Riyadh and licensed by the CMA. In accordance with its licensing from the CMA, the principal activities of Riyad Capital are dealing as a principal and agent, underwriting, management of investment funds and clients' portfolios, arranging and providing advisory and custody services. Riyad Capital commenced business in October 2007. Riyad Capital's paid up capital is SAR 200,000,000 divided into 20,000,000 shares of SAR 10 each. Riyad Capital is a wholly-owned subsidiary of the Bank.

Riyad Capital operates the following businesses:

Wealth management

Riyad Capital's wealth management segment has a team of experienced investment advisers to support its corporate and individual clients' investment decisions. Its wealth management services include a comprehensive advisory process, customised advisory solutions, including tailored investment portfolios and discretionary portfolio management, investments in Riyad Capital's CMA-registered mutual funds which are managed in-house and by third party providers and advice on local and international equity markets and related brokerage services.

Corporate investment banking

Riyad Capital's corporate investment banking activities include a broad range of services across equity and debt capital markets and advisory services (including mergers and acquisitions). Riyad Capital participates in both public and private equity capital raisings in Saudi Arabia through initial public offerings, rights issues, follow-on offerings and private placements. In addition, Riyad Capital is also active in arranging issues of Saudi Riyal-denominated fixed income debt securities (such as bonds and sukuk) and advises both local and international clients on mergers, acquisitions and divestitures across a number of industries.

Asset management

Riyad Capital's total investment fund assets reached SAR 50 billion as at 31 December 2019 compared to SAR 33 billion as at 31 December 2018.

Riyad Capital offers its customers a selection of 30 domestic and international investment funds and portfolios of varying risk levels and asset mixes, designed to meet its customers' diverse risk/return tolerances. Of these funds, 21 (comprising eight funds of funds, seven Saudi equity funds, four money market funds, one GCC fund and one real estate fund) are managed by Riyad Capital. The remaining nine funds are managed in partnership with international fund managers. Of Riyad Capital's 30 investment funds, 15 are *Shariah*-compliant.

Brokerage

Riyad Capital's brokerage business offers both local and international market brokerage services which include execution and custody services. The services are offered through both electronic trading (internet trading, interactive voice response trading and mobile trading) and broker assisted trading.

Delivery channels

The Bank's delivery channels include:

- *branches* – the Bank has the third largest branch network in Saudi Arabia with 340 branches located across the Kingdom;
- *online banking* – which allows personal customers to monitor their account activity, transfer funds, pay bills, manage their credit cards, arrange time deposits, subscribe to and trade IPO shares, request services and update information;
- *payment gateway* – which enables corporate customers and merchants to accept card payments for e-commerce activities;
- *digital wallets* – allows customers to perform payment transactions through convenience using Riyad Pay and Apple Pay;
- *mobile banking* – which allows customers to perform everyday banking transactions, including fund transfers, bill payments, beneficiary management, applications for current and saving accounts and managing credit cards on their mobile telephone;
- *telephone banking* – which enables customers to perform a range of banking transactions, such as local and international transfers to pre-defined accounts, paying loan instalments and credit card bills, checking account balances, making government or utility bill payments and activating cards, using a touch-tone phone or intelligent voice recognition;
- *over 2,500 ATMs* – through which customers can withdraw cash, makes certain transfers and payments, access IPO services and initiate certain enquiries;
- *Riyad Self Service* – allows customers to issue and renew debit cards, print account statements and manage their accounts; and
- *over 50,000 POS terminals* – which are located at merchants' premises and enable them to accept card payments from their customers.

The Group has implemented government services, such as SADAD, on all relevant remote channels and provides "Riyad Alerts" for all customer transactions on current accounts and credit cards. It also provides cash deposit cards, business banking credit cards and e-services for SMEs to extend customer reach for this segment. The Group's digital strategy has resulted in the evolution of its website from a classical branding and service channel into a dynamic marketing and sales engine that provides the Group with an opportunity to gain a competitive advantage in the marketplace through improved service and productivity, greater efficiency, lower costs and improved customer acquisition and retention.

International operations

The Group's international operations comprise its London branch, an agency in Houston and a representative office in Singapore. The bank has no current plans to extend its overseas presence.

London branch

The Bank's London branch assists its Saudi Arabian-based customers in meeting their business and/or investment requirements in the European markets. The branch has also developed relationships with several major European corporations engaged in business and/or investment activities in Saudi Arabia and other GCC states. The London branch's products and services include providing short and medium-term credit facilities, syndicated credit facilities, project financing (within Saudi Arabia), real estate financing, trade finance, foreign exchange and money markets.

Houston agency

The Bank is the only Saudi Arabian bank with a physical presence in the United States. Its agency in Houston, Texas, was established in 1990 to assist the Bank's Saudi Arabian-based customers in meeting their business and/or investment requirements in the U.S. market. The agency has also developed business relationships with several major U.S. corporations engaged in business and/or investment activities in the Saudi Arabian and the other GCC states. The agency offers a range of products and services on a wholesale banking basis, including trade finance and documentary credits, project finance (within Saudi Arabia), short and medium-term credit facilities and real estate financing.

Singapore representative office

The Bank established a representative office in Singapore in 1997 to assist the international business requirements of its private and corporate customers in the Asia/Pacific region, particularly in the areas of trade and finance.

The representative office's services include regional marketing and relationship management, liaising with the Bank's domestic branch network in Saudi Arabia and maintaining the Bank's correspondent banking network in the Asia/Pacific region.

Competition

The Group faces competition from foreign and domestic banks in each of the different business areas in which it operates. As at 31 December 2019, 25 banks (comprising 11 Saudi banks and 14 international banks) conducted commercial banking activities in Saudi Arabia through permanent establishments. For further details, see "*The Kingdom of Saudi Arabia Banking Sector and Regulations—General*".

In the corporate and investment banking sector, the Group competes to attract large national corporate clients that can provide significant volumes of business and that present opportunities to cross sell other banking services. In consumer banking, the Group primarily competes to attract the large Saudi Arabian and expatriate populations, and in particular, high net worth customers.

The Group believes that it has a strong position in the Saudi Arabian corporate and investment banking and consumer banking segments. It believes that its strong market position is attributable to its competitive advantages, including, in particular:

- its domestic systemically important bank (D-SIB) status in Saudi Arabia;

- its branch network, which is the third largest in Saudi Arabia;
- its strong risk management policies - the Group believes that its risk management policies and practices are comparable to "best practice" in the banking sector internationally;
- its size and financial strength - the Bank was the fourth largest Saudi Arabian bank in terms of total assets as at 30 September 2019, with a strong balance sheet and liquidity position, providing it with operational and financial flexibility;
- its wide range of banking products that cater to the needs of its corporate, retail and other customers; and
- its digital banking initiatives, such as contactless payment initiatives (including the Riyad Pay wallet app, the Riyad mobile sticker and the Smart wristband), Riyad mobile and online services, including the ability to open a second account online, SADAD account services, the immediate issuance of virtual credit cards for online transactions and the Wazen programme for *Shariah*-compliant savings) and Riyad foreign currency ATMs that enable customers to make withdrawals in U.S. dollars, euro, pounds sterling and UAE dirham.

Information Technology

The Group's Business Technology Division (the "**BTD**") helps its businesses to manage customer and regulatory requirements through well-defined processes and the effective use of technology. Its mandate is to embrace the latest and best technology to improve business processes, in line with the Bank's goals of generating revenue while enhancing customer experience.

The BTD continually undertakes projects to introduce new technologies and enhance existing technology infrastructure to yield better services to internal and external users. In 2019, the BTD undertook various projects to upgrade the core banking system, credit management system, trade finance system, integration layer (MW), risk management system, customer relationship management and customer interface related systems.

Each year the BTD undertakes a significant number of technology projects, with an average of 20 projects per year, and 17 major projects were successfully delivered in 2019.

The BTD continuously monitors and improves its business continuity management process. The Bank has disaster recovery centres in several locations, which have been successfully tested to ensure that they are ready to handle disruptive business situations.

The BTD also places particular emphasis on data protection and its IT infrastructure is backed up by an alternative data centre with a handling capacity similar to the primary data centre.

Compliance

The compliance function plays a vital role in identifying, assessing and providing advice relating to compliance with applicable laws and regulatory requirements. In addition to monitoring and reporting on compliance-related risks (which may give rise to legal and administrative penalties, financial loss or reputational damage), the compliance function is also responsible for oversight of the implementation of anti-money laundering ("**AML**") and counter-terrorist financing ("**CTF**") operations.

The compliance function is independent and it is organised into four major sections, each responsible for specific activities in line with the Bank's policies and SAMA requirements:

- compliance monitoring section;

- advisory and business support section;
- regulatory affairs and development section; and
- AML and CTF section.

Compliance monitoring section

The compliance monitoring section maintains an inventory of all regulations that impact the Bank and a risk register that includes a risk assessment of all key regulatory requirements impacting the Bank. It also maintains a log of all breaches of regulation noted from compliance monitoring activities or reported to it by other control functions.

The compliance monitoring section is also responsible for conducting and/or overseeing ongoing risk-based monitoring for all compliance requirements. The nature, timing and extent of monitoring activities are based on the 'residual' risk assessment of the relevant regulatory category.

The compliance monitoring section actively participates in the account opening and transaction monitoring activities of accounts that it has defined as 'High Risk Accounts', based on SAMA rules and regulations that require active monitoring of compliance.

Advisory and business support section

The advisory and business support section determines the impact of all regulatory updates on the Group's business processes. Regulatory updates include new regulations, amendments to existing regulation, clarifications of existing regulations and notifications. Where it determines that existing business processes and IT systems do not support the regulatory updates, it escalates the matter to the appropriate authority.

The advisory and business support section is responsible for providing interpretation and advice to the business units on an ongoing basis in relation to applicable regulations. It performs root-cause analysis and appropriate response plans where needed in the event of regulatory breaches.

The advisory and business support section is also responsible for conducting a review of internal policies and procedures to ensure they comply with regulatory requirements and for verifying that new products, services, and systems are consistent with all rules and regulations and internal procedures and instructions.

(a) New regulation - Diagnostic of scope and impact: Upon receipt of new regulations, the advisory and business support section reviews them to determine whether the Group's existing business processes and IT system support the regulatory requirements. If not, it will escalate the matter to the appropriate authority.

(b) Interpretation and advice: The advisory and business support section is responsible for providing interpretation and advice to the Group's business units on an on-going basis for matters pertinent to applicable regulations.

(c) 'Root-cause' analysis in the event of identification of regulatory breaches: When a regulatory breach is identified, there may be a need to perform a 'root- cause' analysis to determine what corrective action is required. The advisory and business support section is responsible for performing such analysis. Based on the outcome of the root-cause analysis, the advisory and business support section formulates a plan of action.

(d) Review of internal policies, procedures and systems: The advisory and business support section is responsible for conducting review of such policies, procedures and systems and advising the Group on its adherence to regulatory requirements and how these are reflected in internal policies, procedures and systems.

(e) Involvement in the introduction of new products, services, and systems: The advisory and business support section verifies that all of the Group's contracts, models, services, products, promotions encompass and are consistent with all applicable rules and regulations and internal procedures and instructions.

Regulatory affairs and development section

The regulatory affairs and development section coordinates SAMA regulatory inspections and ensures that the requirements of the examiners are fully met. It also prepares and presents reports on compliance initiatives to the Executive Management when required and the Board on a semi-annual basis, reports progress against the compliance plan to the risk management and compliance committee ("**RMCC**") on a monthly basis and prepares an annual compliance report for SAMA.

The regulatory affairs and development section monitors the Bank's insider trading policy, gift and entertainment declaration policy, conflict of interest policy and certain other policies on an ongoing basis in accordance with SAMA requirements. It also educates staff on regulatory compliance and AML matters.

AML and CTF section

The AML and CTF section ensures the Bank's compliance with AML and CTF rules, including the updated Saudi Arabian Anti-Money Laundering Law issued in 2017, SAMA rules and regulations governing AML and CTF activities and international best practice, such as the seventh principle of the Basel Committee on the Compliance Department. The Money Laundering Reporting Officer is the focal point for monitoring all AML and CTF-related policies and activities within the Bank and is responsible for assessing whether suspicious activities should be the subject of a Suspicious Activity Report to be submitted to the Saudi Arabian Financial Intelligence Unit.

Financial Crime Prevention

The financial crimes prevention department ("**FCPD**") within the Risk Management division is one of the Bank's control functions and is responsible for aligning the control framework, governance and remediation actions for all fraud, financial crime, bribery and corruption risks on an integrated financial crimes prevention risk platform.

In accordance with the Bank's policies and objectives, the FCPD ensures that all fraud and financial crime-related mandates, directives, policies and procedures implemented within the Bank are in compliance with regulatory guidelines issued by SAMA. The FCPD aims to:

- fully understand the complete impact of fraud and financial crime;
- embed fraud risk assessment for the detection and prevention of known vulnerabilities for risk remediation and enhanced customer experience;
- implement international standard tools and techniques to mitigate fraud and financial crime risks;
- make the Bank's investments in relation to fraud and financial crime controls more cost effective; and
- build trust with the Bank's customers and business partners.

The FCPD comprises three functions:

Fraud prevention section- which aims to minimise losses and prevent occurrences of all fraud and financial crime-related incidents within the Bank by developing and implementing tools, methodologies, systems and techniques for the detection, prevention and monitoring occurrences of fraud and financial crime and maintaining a common reporting and communication platform for this purpose.

Anti-bribery and corruption section- which is responsible for detecting and investigating potential or reported bribery and corruption activity.

Awareness and education section- which develops and delivers anti-fraud and financial crime training plans and awareness sessions for all Bank employees in co-ordination with the Human Resources department. It also co-ordinates awareness-related activities across the Bank by way of e-bulletins, newsletters and circulars.

Internal Control Department

The Bank's internal control department (the "**ICD**") serves as one of the key second line functions within Internal Control and Market Risk Division and has the following roles and responsibilities:

- to identify key risks inherent in the Group's significant businesses and support processes and maintain the enterprise key risk register, covering key risks and controls;
- to ensure quarterly testing of key risks and controls takes place through the bank-wide divisional controller in order to identify control deficiencies;
- to maintain an inventory of Bank-wide control deficiencies received from business lines, key control functions and external parties such as the lead regulator and auditors;
- to present an integrated internal control report and governance report to the RMCC on a monthly basis and to the Board Audit Committee on a semi-annual basis; and
- to ensure that the integrated reporting framework supports the executive management team in the annual attestation of the effectiveness of the internal controls across the Bank, and that such attestation provides assurance to the Board in ensuring the internal controls have been adequately designed and are operating effectively across key divisions with the Bank in order to mitigate various types of risks as set out in the Risk Appetite Statement.

FINANCIAL REVIEW

The following discussion and analysis should be read in conjunction with the information set out in "Presentation of financial and other information", "Selected financial information" and the Financial Statements.

This discussion of the Group's financial condition and results of operations is based upon the Financial Statements. This discussion contains forward-looking statements that involve risks and uncertainties. The Group's actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Offering Circular, particularly under the headings "Cautionary statement regarding forward-looking statements" and "Risk factors".

See "Presentation of financial and other information" for a discussion of the source of the numbers presented in this section and the basis of preparation of those numbers.

Overview

The Bank is the fourth largest bank in Saudi Arabia in terms of consolidated total assets, which amounted to SAR 250.6 billion, as at 30 September 2019. The Group offers a wide range of banking products and financial services to individuals and businesses. Its principal divisions are organised in accordance with business segments differentiated by the type of customer and service involved. The Group's principal business segments are retail, corporate, investment banking and brokerage, and treasury and investments. The Group also offers a range of Islamic banking products across these segments.

The Group's retail and corporate businesses principally generate net special commission income on loans and advances, as well as net fee and commission income. The Group's treasury and investment activities principally generate net special commission income on the Group's investment portfolio of fixed income securities, exchange income on foreign exchange transactions for clients, dividend income and investment and trading gains or losses. The Group provides investment banking and asset management services through its subsidiary Riyad Capital, and these activities principally generate fee and commission income on share brokerage, fund management activities and advisory mandates. The Group's services are provided principally through its branch network in Saudi Arabia, a network of ATMs and point of sale ("**POS**") terminals, telephone banking, internet banking and mobile banking.

As at 31 December 2019, the Group's net customer financing portfolio was SAR 174 billion and its total customer deposits were SAR 195 billion. As at 31 December in each of 2018 and 2017, the Group's customer financing portfolio was SAR 151 billion and SAR 139 billion, respectively, and as at the same dates its total customer deposits were SAR 170 billion and SAR 154 billion, respectively.

In 2019, the Group's net operating income, net was SAR 6,079 million and its net income for the year was SAR 5,602 million. In 2018, the Group's net operating income was SAR 4,665 million and its net income for the year was SAR 3,092 million. In 2017, the Group's total net operating income was SAR 3,923 million and its net income for the year (before Zakat) was SAR 3,946 million.

As at 31 December 2019, the Group's total tier 1 and total capital adequacy ratios, calculated in accordance with Basel III as implemented in Saudi Arabia, were 16.3 per cent. and 18.1 per cent., respectively. As at 31 December 2018, the Group's total tier 1 and total capital adequacy ratios, calculated in accordance with Basel III as implemented in Saudi Arabia, were 16.1 per cent. and 18.1 per cent., respectively, compared to 17.3 per cent. and 19.6 per cent., respectively, as at 31 December 2017.

Principal factors affecting results of operations

The following is a discussion of the principal factors that have affected, or are expected to affect, the Group's results of operations.

Economic conditions

The Group is a Saudi Arabian bank primarily focused on lending to, and accepting deposits from, institutions, companies and residents in Saudi Arabia. As a result, its revenue and results of operations are principally affected by economic and market conditions in Saudi Arabia, which in turn are significantly impacted by changes in international oil prices. See "*Risk factors—Risks relating to the Group—The Group's operations and assets are principally located in Saudi Arabia and, accordingly, the Group is exposed to general economic conditions in Saudi Arabia*".

Based on the IMF's World Economic Outlook Database October 2019, Saudi Arabia's real GDP declined by 0.7 per cent. in 2017 and grew by 2.4 per cent. in 2018 and its nominal GDP grew by 6.8 per cent. in 2017 and by 14.2 per cent. in 2018. According to the same source, Saudi Arabia's real GDP is projected to have grown by 0.2 per cent. in 2019.

According to the Staff Report relating to the IMF's 2019 Article IV Consultation with Saudi Arabia in September 2019, the growth in real GDP in 2018 reflected growth in both real oil and real non-oil GDP, with the latter being boosted by an increase in government spending, a pickup in confidence and improved liquidity and credit conditions. The report notes, however, that an increase in expatriate fees and weakness in the construction sector (which contracted for the third successive year in 2018) led to the departure from the country of many expatriates, particularly among those working in construction. These departures weighed on consumption, inflation, remittance outflows, and the real estate market and the IMF estimated that these departures could have reduced real GDP growth by between 0.5 and 0.75 per cent. in 2018. The report also notes that unemployment among nationals remained high at 12.5 per cent. in the first quarter of 2019, the fiscal deficit narrowed from 9.2 per cent. of GDP in 2017 to 5.9 per cent. in 2018 (although it is projected to have increased to 6.5 per cent. of GDP in 2019) and the current account surplus increased to 9.2 per cent. of GDP in 2018. Within the banking sector, the report noted that bank NPLs had increased slightly to 2 per cent. in the fourth quarter of 2018 but remained low, while bank capital and return on assets continued to be strong.

The Group also remains exposed to the risk of external changes, such as an increase in global financial market volatility, which could pose funding, market and credit risks for investment companies and banks.

Factors affecting net special commission income

The Group's net special commission income is the major contributor to its total operating income, net, comprising 73.1 per cent. of total operating income, net in 2019, 73.9 per cent. in 2018 and 73.0 per cent. in 2017.

Within the Group's net special commission income:

- special commission earned on loans and advances to customers is the major contributor to total special commission income, comprising 81.9 per cent. of the Group's total special commission income in 2019, 82.8 per cent. in 2018 and 83.4 per cent. in 2017. Special commission earned from investment securities comprised 15.7 per cent. of the Group's total special commission income in 2019, 15.5 per cent. in 2018 and 14.6 per cent. in 2017. The balance in each year comprised special commission earned on short-term interbank lending; and

- special commission paid on customer deposits is the major contributor to total special commission expense, comprising 77.0 per cent. of the Group's total special commission expense in 2019, 73.2 per cent. in 2018 and 76.6 per cent. in 2017. Special commission expense on debt securities in issue comprised 6.5 per cent. of the Group's total special commission expense in 2019, 15.0 per cent. in 2018 and 15.8 per cent. in 2017. The balance in each year comprised special commission paid on short-term interbank funding.

The Group's net special commission income is affected by a number of factors. It is primarily determined by the volume of special commission-earning assets relative to special commission-bearing liabilities, as well as the differential between the rates earned on special commission-earning assets and the rates paid on special commission-bearing liabilities.

The Group's net special commission income for 2019 was SAR 1,209 million, or 17.2 per cent., higher than its net special commission income in 2018 which, in turn, was SAR 693 million, or 11.7 per cent., higher than its net special commission income in 2017. For a discussion of the trends in the Group's net special commission income, see "*—Results of operations—Comparison of 2019 and 2018—Total net operating income—Special commission income, net*" and "*—Results of operations—Comparison of 2018 and 2017—Total net operating income—Special commission income, net*".

Factors affecting fee and commission income, net

The Group's fee and commission income, net is another significant contributor to its total net operating income, comprising 18.9 per cent. of total net operating income in 2019, 19.1 per cent. in 2018 and 18.6 per cent. in 2017.

Within the Group's fee and commission income, net:

- fee and commission income earned on card products, credit facilities and advisory and trade finance are the major categories, together comprising 78.8 per cent. of the Group's total fee and commission income in 2019, 80.6 per cent. in 2018 and 81.9 per cent. in 2017. Fee and commission earned from share brokerage and fund management comprised 16 per cent. of the Group's total fee and commission income in 2019, 13.4 per cent. in 2018 and 12.5 per cent. in 2017. The balance in each year comprised fee and commission income earned on other banking services; and

- fees and commission paid on banking cards is the major contributor to total fee and commission expense, comprising 72.4 per cent. of the Group's total fee and commission expense in 2019, 73.2 per cent. in 2018 and 72.6 per cent. in 2017. Fee and commission expense on share brokerage comprised 5.9 per cent. of the Group's total fee and commission expense in 2019, 7.0 per cent. in 2018 and 7.2 per cent. in 2017. The balance in each year comprised fee and commission expense paid on other banking services.

The Group's net fee and commission income is affected by a number of factors. It is primarily determined by the volume of transactions conducted, especially in the case of trade finance and credit facilities and advisory fee and commission income, as well as the differential in the rates charged and paid by the Group, especially in relation to card and share brokerage transactions.

The Group's net fee and commission income for 2019 was SAR 320 million, or 18.7 per cent., higher than its net fee and commission income in 2018. The Group's net fee and commission income for 2018 was SAR 201 million, or 13.3 per cent., higher than its net fee and commission income in 2017. For a discussion of the trends in the Group's net fee and commission income, see "*—Results of operations—Comparison of 2019 and 2018—Total net operating income—Fee and commission income, net*" and "*—Results of operations—Comparison of 2018 and 2017—Total net operating income—Fee and commission income, net*".

Impairment allowance

The Group's allowance for impairment against loans and advances was SAR 2,756 million as at 31 December 2019 compared to SAR 2,359 million as at 31 December 2018 and SAR 2,085 million as at 31 December 2017. As at 31 December 2019, this allowance comprised SAR 450 million in stage 1 provisions, SAR 509 million in stage 2 provisions and SAR 1,797 million in stage 3 provisions. As at 31 December 2018, this allowance comprised SAR 301 million in stage 1 provisions, SAR 668 million in stage 2 provisions and SAR 1,390 million in stage 3 provisions. As at 31 December 2017, the Group's allowance for impairment comprised SAR 1,013 million in specific provisions and SAR 1,072 million in portfolio provisions.

In 2019, the Group's net impairment charge for credit losses and other financial assets on its income statement amounted to SAR 1,012 million, an increase of SAR 84 million, or 9.1 per cent., compared to the SAR 928 million charged in 2018. This increase principally related to the loans and advances portfolio and reflected the growth in volumes.

In 2018, the Group's net impairment charge for credit losses and other provisions on its income statement amounted to SAR 928 million, a decrease of SAR 300 million, or 24.4 per cent., compared to the SAR 1,227 million charged in 2017. This decrease principally reflected an improvement in asset quality due to the improving economic environment.

In 2017, the Group's net impairment charge for credit losses on its income statement amounted to SAR 1,227 million. The Group's net impairment charge in 2017 reflected its SAR 1,858 million gross charge from which is deducted its recoveries from amounts previously written off of SAR 631 million.

On 17 July 2019, SAMA instructed banks in Saudi Arabia to recognise Zakat and income taxes in the statement of income rather than, as they had previously done, in the statement of equity. This aligns with IFRS and its interpretations as issued by the IASB endorsed in the Kingdom and with the other standards and pronouncements that are endorsed by SOCPA.

Accordingly, the Group changed its accounting treatment for Zakat and income tax by retrospectively adjusting the impact in line with International Accounting Standard 8 (IAS 8) "Accounting Policies, Changes in Accounting Estimates and Errors" (as disclosed in note 3 to the 2019 Financial Statements).

During 2018, the Group reached an agreement with the General Authority of Zakat and Tax ("**GAZT**") on the settlement of Zakat claims for previous financial years up to the end of 2017, against payment of an amount of SAR 2,970 million. In accordance with the settlement agreement, the Group was required to settle 20 per cent. of the agreed Zakat liability in 2018, with the remaining amount to be settled over a period of five years.

As a result of these factors, the Group's Zakat charge to its restated income statement in 2018 amounted to SAR 1,624 million, of which SAR 430 million represented current Zakat for 2018 and the remainder represented its remaining liability under the settlement agreement.

On 14 March 2019, the GAZT published rules for computation of Zakat for companies engaged in financing activities and licensed by SAMA (the "**Rules**"). The Rules apply from 1 January 2019. In addition to providing a new basis for calculating the Zakat base, the Rules have also introduced a minimum floor at four times the net income and a maximum cap at eight times the net income when determining the Zakat base. Accordingly based on the new regulations, the Bank has recorded a current year Zakat charge of SAR 630 million in its 2019 Financial Statements.

The Group did not charge any Zakat through its 2017 income statement.

Significant Accounting Policies

For a discussion of the significant accounting policies applied by the Group generally, see note 3 to the 2019 Financial Statements and note 3 to the 2018 Financial Statements.

Critical Accounting Judgments and Estimates

In preparing the Group's financial statements, management is required to make certain estimates, judgments and assumptions. These affect the reported amounts of the Group's assets and liabilities, including disclosure of contingent assets and liabilities, at the date of the financial statements as well as the reported amounts of its revenues and expenses during the periods presented. Management bases its estimates and assumptions on historical experience and other factors that it believes to be reasonable at the time the estimates and assumptions are made and evaluates the estimates and assumptions on an ongoing basis. However, future events and their effects cannot be predicted with certainty and the determination of appropriate estimates and assumptions requires the use of judgment. Actual outcomes may differ from any estimates or assumptions made and such differences may be material to the financial statements. For a discussion of the most significant accounting estimates, judgments and assumptions made in the preparation of the Group's financial statements, see note 2(d) to the 2019 Financial Statements. This note identifies (i) the measurement of impairment losses on financial assets, (ii) the measurement of fair values of assets and liabilities, (iii) the determination of whether or not the Bank controls certain investment funds and special purpose entities, (iv) the assumptions and estimates made in accounting for its end of service benefit scheme as the significant areas where management has used estimates or assumptions or exercised judgment and (v) assumptions made when recognising upfront fees charged to borrowers on loan financings.

Results of Operations

Comparison of 2019 and 2018

Total operating income, net

The table below shows the components of the Group's total operating income, net for each of 2019 and 2018.

	2019	2018
	(SAR million)	
Special commission income, net	7,837.0	6,628.5
Fee and commission income, net	2,030.7	1,711.1
Exchange income, net	342.7	292.6
Trading income, net	132.8	104.6
Dividend income	102.9	57.5
Gains on disposal of non-trading investments, net	255.5	130.3
Other operating income, net	15.5	42.9
Total operating income, net	10,717.1	8,967.4

The Group's total operating income, net for 2019 was SAR 10,717 million compared to SAR 8,967 million for 2018, an increase of SAR 1,750 million, or 19.5 per cent. This increase reflected the changes described below in each component of the Group's total operating income.

Special commission income, net

Special commission income is the Group's principal source of income. The Group earns special commission income on the customer loans and advances made by it, on its portfolio of fixed income investment securities and on its deposits with central banks and other banks. The Group incurs special commission expense on its customer deposits, on its debt securities in issue and on its deposits from banks and other financial institutions. Special commission income and expense is recognised in the income statement using the effective interest method, as explained in note 3(g) to the 2019 Financial Statements.

The Group's special commission income, net for 2019 amounted to SAR 7,837 million compared to SAR 6,628 million for 2018. The Group's special commission income, net increased by SAR 1,209 million, or 18.2 per cent., in 2019, reflecting the changes in special commission income and special commission expense discussed below.

The table below shows a breakdown of the Group's net special commission income in each of 2019 and 2018.

	2019	2018
	(SAR million)	
Special commission income		
Investments		
Fair value through income statement (**FVIS**)	—	11.8
Fair value through other comprehensive income (**FVOCI**)	624.6	437.3
Amortised cost	999.5	841.0
	1,624.1	1,290.1
Due from banks and other financial institutions	256.8	146.7
Loans and advances	8,490.6	6,895.5
Total special commission income	10,371.5	8,332.3
Special commission expense		
Due to banks and other financial institutions	417.1	209.3
Customer deposits	1,952.6	1,248.2
Debt securities in issue	164.7	246.4
Total special commission expense	2,534.4	1,703.9
Net special commission income	7,837.1	6,628.1

The Group's net special commission income for 2019 was SAR 1,209 million, or 18.2 per cent., higher than its net special commission income in 2018. This principally reflected an SAR 2,039 million, or 24.5 per cent., increase in the Group's special commission income in 2019 which was partially offset by an SAR 831 million, or 49 per cent., increase in the Group's special commission expense.

The increase in the Group's special commission income in 2019 principally reflected an SAR 1,595 million, or 23.1 per cent., increase in special commission earned on loans and advances reflecting higher income from commercial loans (mainly on account of higher yields and average volumes). In addition, there was an SAR 334 million, or 25.9 per cent., increase in special commission earned on investments, principally as a result of increased yields and an increase in average volumes and special commission earned on interbank lending increased by SAR 110 million, or 75 per cent.

The increase in the Group's special commission expense in 2019 principally reflected higher special commission paid on customer deposits, which rose by SAR 704 million, or 56.4 per cent., principally due to higher average volumes of interest bearing deposits and also higher rates and higher special commission paid on interbank funding, which rose by SAR 208 million, or 99.3 per cent., principally reflecting rate increases. These increases were partially offset by an SAR 82 million, or 33.2 per cent., decrease in special commission paid on debt securities in issue.

Principally reflecting the factors described above, the Group's net special commission margin was 3.48 per cent. in 2019 compared to 3.33 per cent. in 2018.

Fee and commission income, net

The Group earns fees and commissions on its card products, on customer loans advanced by it, on other credit facilities (such as commitments to lend made by it and letters of credit and guarantees issued by it), on its trade finance transactions, on its corporate finance and other advisory mandates, on its share brokerage and fund management services and on other banking services provided by it. The Group pays fees and commissions principally in respect of cards and share brokerage, but also on other banking services provided to it.

The table below shows a breakdown of the Group's fee and commission income, net for each of 2019 and 2018.

	2019	2018
	(SAR million)	
Fee and commission income		
Share brokerage and fund management	460.4	323.5
Trade finance	599.8	596.8
Credit facilities and advisory	901.6	641.3
Card products	767.9	707.0
Other banking services	151.1	143.4
Total fee and commission income	2,880.8	2,412.0
Fee and commission expense		
Banking cards	615.9	513.2
Share brokerage	50.2	49.1
Other banking services	184.1	138.6
Total fee and commission expense	850.2	700.9
Fee and commission income, net	2,030.6	1,711.1

The Group's fee and commission income, net for 2019 was SAR 320 million, or 18.7 per cent., higher than its net fee and commission income in 2018. This principally reflected an SAR 469 million, or 19.4 per cent., increase in the Group's fee and commission income and an SAR 149 million, or 21.3 per cent., increase in the Group's fee and commission expense in 2019.

The increase in the Group's fee and commission income in 2019 principally reflected:

- an SAR 260 million, or 40.6 per cent., increase in fees and commissions on credit facilities and advisory, mainly due to an increase in the Group's loan book; and
- an SAR 137 million, or 42.3 per cent., increase in fees and commissions on share brokerage and fund management, mainly due to higher income from fees relating to assets under management and related products and services.

The increase in the Group's fee and commission expense in 2019 principally reflected:

- an SAR 103 million, or 20.0 per cent., increase in fee and commission expense on card products, mainly due to the increase in POS and ATM network-related expenses; and
- an SAR 45 million, or 32.8 per cent., increase in fee and commission expense on other banking expenses due to higher credit facility-related fee expenses.

Exchange income, net

The Group's exchange income, net principally comprises exchange related gains and losses from derivative financial instruments and translation differences relating to foreign currency assets and liabilities. The Group's net exchange income for 2019 amounted to SAR 343 million compared to SAR 293 million for 2018. The increase of SAR 50 million, or 17.1 per cent., in 2019 was mainly due to higher income from customer transactions.

Trading income, net

The Group's trading income, net principally comprises income from derivatives transactions. The Group's net trading income for 2019 amounted to SAR 133 million compared to SAR 105 million for 2018. The increase of SAR 28 million, or 27 per cent., in 2019 principally reflected higher volumes of transactions.

Dividend income

The Group's dividend income represents the dividends and distributions it receives from its portfolio of equity and mutual fund securities. The Group's dividend income for 2019 amounted to SAR 103 million compared to SAR 58 million for 2018. The increase of SAR 45 million, or 78.8 per cent., was mainly derived from the Group's equity investment portfolio.

Gains on disposal of non-trading investments, net

The Group's gains on disposal of its non-trading investments, net principally represent gains and losses recognised on the sale of FVOCI investments and, to a limited extent, other investments held at amortised cost (which are fixed income investments that are not traded in active markets). The Group's gains on disposal of non-trading investments, net were SAR 255 million in 2019 compared to SAR 130 million in 2018. The increase of SAR 125 million, or 96.1 per cent., in 2019 principally reflected an SAR 120 million, or 97.5 per cent., increase in gains recognised on the sale of FVOCI investments which mainly related to equities, equity funds and international securities.

Other operating income

The Group's other operating income was SAR 15 million in 2019 compared to SAR 43 million in 2018.

Total operating expenses, net

The table below shows the components of the Group's total operating expenses, net for each of 2019 and 2018.

	2019	**2018**
	(SAR million)	
Salaries and employee-related expenses	1,879.0	1,765.2
Rent and premises-related expenses	200.2	327.6
Depreciation of property and equipment	439.0	296.9
Other general and administrative expenses	1,035.7	926.3
Impairment charge for credit losses and other financial assets, net	1,012.3	927.8

	2019	2018
	(SAR million)	
Impairment (reversal) charge for investments, net	(48.0)	26.9
Other operating expenses	120.2	31.4
Total operating expenses, net	4,638.4	4,302.1

The Group's total operating expenses, net for 2019 was SAR 4,638 million compared to SAR 4,302 million for 2018, an increase of SAR 336 million, or 7.8 per cent. This increase principally reflected in almost all components of the Group's total net operating expenses with the exception of rent and premises-related expenses and the net impairment charge for investments, which was a reversal in 2019. The Group's expense categories are discussed individually below.

Salaries and employee-related expenses

The Group pays both fixed and variable remuneration to its staff in accordance with its compensation policy. The Group's compensation policy is based on the job profile, market practices and the nature and level of involvement in risk taking. It applies to the Group's executive management and all employees and aims to link individual performance to the Group's overall achievements and soundness. See note 24 to the 2019 Financial Statements and note 24 to the 2018 Financial Statements for breakdowns of the Group's compensation paid by type of compensation and category of employee.

The Group's total salary and employee-related expense for 2019 was SAR 1,879 million compared to SAR 1,765 million for 2018, an increase of SAR 114 million, or 6.4 per cent. This increase principally reflected a combination of higher compensation to risk-taking employees and a fall in the number of outsourced employees.

Rent and premises-related expenses

The Group's total rent and premises-related expenses for 2019 were SAR 200 million compared to SAR 328 million for 2018, a fall of SAR 127 million, or 38.9 per cent due to adoption of IFRS 16 "Leases" and the same is reflected in higher depreciation expenses for "Right of Use" assets.

Depreciation of property and equipment

The Group's depreciation charge for 2019 was SAR 439 million compared to SAR 297 million for 2018, an increase of SAR 142 million, or 47.9 per cent. due to the adoption of IFRS 16 which requires the "Right of Use" assets to be capitalised and depreciated, however, there were no such requirements in 2018.

Other general and administrative expenses

The Group's other general and administrative expenses for 2019 were SAR 1,036 million compared to SAR 926 million for 2018, an increase of SAR 109 million, or 11.8 per cent.

Impairment charges

Since 1 January 2018, IFRS 9 requires the Group to record an allowance for expected credit losses ("**ECL**") for all loans and advances and other debt financial assets not held at fair value through the income statement ("**FVIS**"), together with loan commitments and financial guarantee contracts.

The Group recognises loss allowances for ECL on the following financial instruments that are not measured at FVIS:

- financial assets that are debt instruments;

- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity instruments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Group considers a debt security to have low credit risk when the security's credit risk rating is equivalent to investment grade. Twelve-month ECL is the portion of ECL that result from default events on a financial instrument that are possible within the 12 months of the reporting date.

ECL is a probability-weighted estimate of credit losses. ECL is measured as follows:

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

For a further discussion, including the treatment of restructured financial assets, the identification of credit impaired financial assets and the presentation of the allowance for ECL in the Group's statement of financial position, see note 3 to the 2019 Financial Statements.

The Group's net impairment charge for credit losses is described under "*—Principal factors affecting results of operations—Impairment allowances*".

In 2018, the Group recorded an SAR 27 million net impairment charge on certain of its debt investments. In 2019, the Group recorded a SAR 48 million reversal of impairment.

Other operating expenses

The Group's other operating expenses were SAR 120 million in 2019 compared to SAR 31 million in 2018, an increase of SAR 89 million, or 282.9 per cent. which mainly reflected higher operational losses in 2019.

Net operating income

Reflecting the above factors, the Group recorded net operating income for 2019 of SAR 6,079 million compared to SAR 4,665 million for 2018, an increase of SAR 1,413 million, or 30.3 per cent.

Share in earnings of associates, net

In each of 2019 and 2018, the Group had three associates: Ajil Financial Services Company in which it has a 48.46 per cent. shareholding as at 31 December 2019 (2018: 35.0 per cent. shareholding), Royal and Sun Alliance Insurance (Middle East) Limited E.C. in which it has a 21.4 per cent. shareholding as at 31 December 2019 and Al-Alamiya for Cooperative Insurance Company in which it has a 30.6 per cent. shareholding as at 31 December 2019. The Group records its share of the net profit or loss of its associates as its share in earnings of associates, net.

The Group's share of the earnings of its associates, net was SAR 153 million in 2019 and SAR 51 million in 2018, an increase of SAR 103 million, or 202.1 per cent. This fluctuation is mainly due to the gains from the purchase of an additional stake in Ajil Financial Services Company during 2019.

Net income for the year before Zakat

Reflecting the above factors, the Group recorded net income for the year before Zakat of SAR 6,232 million in 2019 compared to SAR 4,716 million in 2018, an increase of SAR 1,516 million, or 32.1 per cent.

Zakat

In 2019, the Group recorded a Zakat charge of SAR 630 million compared to a Zakat charge of SAR 1,624 million in 2018. The Group's Zakat charge in 2018 was materially impacted by a settlement agreed with the GAZT in that year. See "*—Principal factors affecting results of operations—Accounting change and settlement agreement relating to Zakat*".

Net income for the year

Reflecting the above factors, the Group recorded net income for the year of SAR 5,602 million in 2019 compared to SAR 3,092 million in 2018, an increase of SAR 2,510 million, or 81.2 per cent.

Other comprehensive income

The Group's other comprehensive income principally comprises changes in the fair value and the recycling of net gains on its FVOCI investments.

In 2019, the Group recorded an SAR 1,106 million positive change in the fair value of its FVOCI debt investments and an SAR 252 million positive change in the fair value of its FVOCI equity investments. An amount of SAR 236 million in respect of gains realised on the sale of FVOCI investments was transferred to the consolidated statement of income. Together with a small net change in the allowance for expected credit losses on debt instruments and a small amount of actuarial gains on defined benefit plans, these factors resulted in other comprehensive income of SAR 955 million in 2019.

In 2018, the Group recorded an SAR 579 million negative change in the fair value of its FVOCI debt investments and SAR 101 million positive change in the fair value of its FVOCI equity investments. An amount of SAR 110 million in respect of gains realised on the sale of FVOCI investments was transferred to the consolidated statement of income. Together with a small net change in the allowance for expected credit losses on debt instruments and a small amount of actuarial gains on defined benefit plans, these factors resulted in other comprehensive loss of SAR 566 million in 2018.

Total comprehensive income for the year

Reflecting the above factors and the Group's net income for the year, the Group's total comprehensive income for 2019 was SAR 6,557 million compared to SAR 2,526 million for 2018, an increase of SAR 4,031 million, or 159.6 per cent.

Segmental analysis

The table below shows certain income statement and statement of financial position line items of the Group's reporting segments as at, and for the years ended, 31 December 2019 and 31 December 2018.

	Retail banking	Investment banking and brokerage	Corporate banking	Treasury and investment
		(SAR million)		
2019				
Net special commission income	3,494.0	140.5	2,867.7	1,334.8
Net fee and commission income	424.1	412.0	1,182.2	12.5
Total operating income, net	3,898.0	587.3	4,062.0	2,169.7
Total net operating expenses	2,341.8	218.7	2,005.5	72.4
Net income before Zakat for the year	1,556.3	368.6	2,056.5	2,250.6
Total assets	71,292.6	1,572.7	122,370.9	70,552.7
Total liabilities	87,456.2	460.3	105,297.7	32,003.2
2018				
Net special commission income	2,831.2	95.1	2,477.7	1,224.5
Net fee and commission income	362.3	266.6	1,077.1	5.1
Total operating income, net	3,197.4	379.8	3,576.0	1,814.1
Total net operating expenses	2,382.9	154.7	1,618.7	145.8
Net income before Zakat for the year	814.5	225.2	1,957.4	1,719.1
Total assets	56,293.6	1,135.2	110,221.4	62,249.3
Total liabilities	80,948.7	259.5	96,683.3	15,233.8

Retail banking

The retail banking segment recorded total operating income, net of SAR 3,898 million in 2019 compared to SAR 3,197 million in 2018, an increase of SAR 701 million, or 21.9 per cent. Within total operating income, net, the retail banking segment's net special commission income increased by SAR 663 million, or 23 per cent., principally as a result of an increase in the average volume of retail loans and related yields and its net fee and commission income increased by SAR 62 million, or 17 per cent., mainly due to higher credit facilities-related fee income. The retail banking segment recorded total net operating expenses of SAR 2,342 million in 2019 compared to SAR 2,383 million in 2018, a fall of SAR 41 million, or 2 per cent., principally reflecting an SAR 85 million reversal of impairment charges in respect of credit losses in 2019 compared to an SAR 162 million impairment charge in respect of credit losses in 2018.

The retail banking segment's net income before Zakat for the year was SAR 1,556 million in 2019 compared to SAR 814 million in 2018, an increase of SAR 742 million, or 91.2 per cent.

Investment banking and brokerage

The investment banking and brokerage segment recorded total operating income, net of SAR 587 million in 2019 compared to SAR 380 million in 2018, an increase of SAR 207 million, or 54.5 per cent. Within total operating income, net, the investment banking and brokerage segment's net special commission income increased by SAR 46 million, or 48 per cent., principally as a result of increased average balances and rates and its net fee and commission income increased by SAR 145 million, or 54 per cent., principally as a result of higher asset management related fee income. The investment banking and brokerage segment recorded total net operating expenses of SAR 219 million in 2019 compared to SAR 155 million in 2018, an increase of SAR 64 million, or 41.3 per cent., reflecting higher salaries and staff-related expenses.

The investment banking and brokerage segment's net income before Zakat for the year was SAR 369 million in 2019 compared to SAR 225 million in 2018, an increase of SAR 144 million, or 64 per cent.

Corporate banking

The corporate banking segment recorded total operating income, net of SAR 4,062 million in 2019 compared to SAR 3,576 million in 2018, an increase of SAR 486 million, or 13.6 per cent. Within total operating income, net, the corporate banking segment's net special commission income increased by SAR 390 million, or 15.7 per cent., principally as a result of higher corporate loan volumes and higher yields on those loans. Its net fee and commission income increased by SAR 105 million, or 9.7 per cent. The corporate banking segment recorded total net operating expenses of SAR 2,006 million in 2019 compared to SAR 1,619 million in 2018, an increase of SAR 387 million, or 23.9 per cent., principally reflecting an SAR 333 million increase in impairment charges in respect of credit losses in 2019 compared to 2018.

The corporate banking segment's net income for the year was SAR 2,057 million in 2019 compared to SAR 1,957 million in 2018, an increase of SAR 100 million, or 5.1 per cent.

Treasury and investment

The treasury segment recorded total operating income, net of SAR 2,170 million in 2019 compared to SAR 1,814 million in 2018, an increase of SAR 356 million, or 19.6 per cent. Within total operating income, net, the treasury segment's net special commission income increased by SAR 111 million, or 9 per cent., principally as a result of higher yields and higher volumes of investments. The treasury segment's net fee and commission income increased by SAR 7 million, principally as a result of an increase in fees related to Islamic products and other fee-based services. The treasury segment recorded total net operating expenses of SAR 72 million in 2019 compared to SAR 146 million in 2018, a decrease of SAR 74 million, or 50.7 per cent., which was mainly due to net impairment charges in respect of investments in 2018 compared to a net reversal of charges in 2019.

The treasury segment's net income for the year was SAR 2,251 million in 2019 compared to SAR 1,719 million in 2018, an increase of SAR 532 million, or 30.9 per cent.

Comparison of 2018 and 2017

Total operating income, net

The table below shows the components of the Group's total operating income, net for each of the years ended 31 December 2018 and 31 December 2017.

	2018	**2017**
	(SAR million)	
Net special commission income	6,628.5	5,935.2
Fee and commission income, net	1,711.1	1,510.3
Exchange income, net	292.6	290.2
Trading income, net	104.6	21.8
Dividend income	57.5	50.8
Gains on disposal of non-trading investments, net	130.3	283.1

	2018	2017
	(SAR million)	
Other operating income, net	42.9	33.9
Total operating income, net	8,967.4	8,125.2

The Group's total operating income, net for 2018 was SAR 8,967 million compared to SAR 8,125 million for 2017, an increase of SAR 842 million, or 10.4 per cent. This increase reflected the changes described below in each component of the Group's total operating income, net.

Special commission income, net

The Group's special commission income, net for 2018 amounted to SAR 6,628 million compared to SAR 5,935 million for 2017. The Group's special commission income, net increased by SAR 693 million, or 11.7 per cent., in 2018, which reflected an SAR 907 million, or 12.2 per cent., increase in the Group's special commission income which was partly offset by an SAR 214 million, or 14.4 per cent., increase in the Group's special commission expense, in each case compared to 2017.

The Group's special commission income in 2018 was SAR 8,332 million, an increase of SAR 907 million, or 12.2 per cent., compared to 2017. This increase reflected higher special commission earned on loans and advances (mainly reflecting higher average volumes and yields) and investments (mainly due to an increase in yields).

The Group's special commission expense in 2018 was SAR 1,704 million, an increase of SAR 214 million, or 14.4 per cent., compared to 2017. The increase in the Group's special commission expense in 2018 principally reflected the impact of rates.

Fee and commission income, net

The Group's fee and commission income, net in 2018 was SAR 1,711 million, an increase of SAR 201 million, or 13.3 per cent., compared to 2017.

This increase in the Group's fee and commission income, net reflected increased income from all fee-earning activities, including credit facilities and advisory and card products in particular, offset by increased fee and commission expense in all areas and card products in particular.

Exchange income, net

The Group's net exchange income in 2018 amounted to SAR 293 million compared to SAR 290 million in 2017. The increase of SAR 3 million, or 0.8 per cent., was mainly due to higher income from customer transactions.

Trading income, net

The Group's net trading income in 2018 amounted to SAR 105 million compared to SAR 22 million in 2017. The increase of SAR 83 million was due to higher income from interest rate swap transactions.

Dividend income

The Group's dividend income in 2018 amounted to SAR 58 million compared to SAR 51 million in 2017. The increase of SAR 7 million, or 13.3 per cent., in 2018.

Gains on disposal of non-trading investments, net

The Group’s gains on disposal of non-trading investments, net were SAR 130 million in 2018 compared to SAR 283.1 million in 2017. The fall of SAR 153 million, or 54 per cent., was mainly due to lower gains on the Group's international securities portfolio.

Other operating income

The Group’s other operating income was SAR 43 million in 2018 compared to SAR 34 million in 2017. The increase of SAR 9 million, or 26.7 per cent., was mainly due to higher gains on the disposal of fixed assets.

Total operating expenses, net

The table below shows the components of the Group’s total operating expenses, net for each of 2018 and 2017.

	2018	**2017**
	(SAR million)	
Salaries and employee-related expenses	1,765.2	1,572.5
Rent and premises-related expenses	327.6	320.5
Depreciation of property and equipment	296.9	282.2
Other general and administrative expenses	926.3	775.8
Impairment charge for credit losses, net	927.8	1,272.8
Impairment charge for investments, net	26.9	0
Other operating expenses	31.4	23.8
Total operating expenses, net	4,302.1	4,202.3

The Group’s total operating expenses, net in 2018 was SAR 4,302 million compared to SAR 4,202 million in 2017, an increase of SAR 100 million, or 2.4 per cent. This increase principally reflected increases in salaries and employee-related expenses and other general and administrative expenses which were partially offset by lower impairment charges in 2019.

Salaries and employee-related expenses

The Group’s total salary and employee-related expenses in 2018 was SAR 1,765 million compared to SAR 1,573 million in 2017, an increase of SAR 193 million, or 12.3 per cent.

Rent and premises-related expenses

The Group’s total rent and premises-related expenses in 2018 was SAR 328 million compared to SAR 320 million in 2017, an increase of SAR 7 million, or 2.2 per cent.

Depreciation of property and equipment

The Group’s depreciation charge in 2018 was SAR 297 million compared to SAR 282 million in 2017, an increase of SAR 15 million, or 5.2 per cent. The Group’s depreciation charge principally relates to its technology, although it also depreciates leasehold improvements, furniture, fixtures and equipment, land and buildings and motor vehicles.

Other general and administrative expenses

The Group's other general and administrative expenses in 2018 was SAR 926 million compared to SAR 776 million in 2017, an increase of SAR 150 million, or 19.4 per cent. This increase was mainly due to increases in consultancy and marketing and advertisement-related expenses.

Impairment charges

At each reporting date and in accordance with IAS 39 or, since 1 January 2018, IFRS 9, the Group assesses its financial assets for objective evidence of impairment. In particular, prior to 1 January 2018:

- all individually significant loans and advances to customers were assessed for specific impairment in accordance with IAS 39;
- specific impairment losses on assets carried at amortised cost (including the Group's customer financing portfolio) were measured as the difference between the carrying amount of the relevant asset and the present value of the estimated future cash flows from it discounted at the asset's original effective special commission rate;
- a provision for collective impairment was made on a portfolio basis for credit losses where there was deterioration in the internal grading or external credit ratings allocated to the borrower or group of borrowers, the current economic climate in which the borrowers operate and the experience and historical default patterns that are embedded in the components of the credit portfolio; and
- impairment losses on available for sale investment securities were recognised by transferring the cumulative loss that had been recognised in other comprehensive income to the income statement as a reclassification adjustment.

For further information, see note 3.3(e) to the 2018 Financial Statements.

The Group's net impairment charge for credit losses is described under "*—Principal factors affecting results of operations—Impairment allowances*".

In 2018, the Group's ECL (after adoption of IFRS 9) was SAR 2,358 million.

Other operating expenses

The Group's other operating expenses were SAR 31 million in 2018 compared to SAR 24 million in 2017, an increase of SAR 8 million, or 31.7 per cent.

Net operating income

Reflecting the above factors, the Group recorded net operating income in 2018 of SAR 4,665 million compared to SAR 3,923 million in 2017, an increase of SAR 742 million, or 18.9 per cent.

Share in earnings of associates, net

The Group's share in earnings of associates, net was SAR 51 million in 2018 compared to SAR 23 million in 2017, an increase of SAR 28 million, or 119.6 per cent.

Net income for the year before Zakat

Reflecting the above factors, the Group recorded net income for the year before Zakat of SAR 4,716 million in 2018 compared to net income for the year of SAR 3,946 million in 2017, an increase of SAR 770 million, or 19.5 per cent. In 2018 and on a restated basis, the Group recorded a Zakat charge of SAR 1,624 million, resulting in net income for the year of SAR 3,092 million. No Zakat charge was recorded to the income statement in 2017. See "*—Principal factors affecting results of operations—Accounting change and settlement agreement relating to Zakat*".

Other comprehensive income

In 2018, the Group's other comprehensive income principally comprised changes in the fair value of debt and equity instruments that are held at FVOCI.

In 2018, the Group recorded an SAR 579 million negative change in the fair value of its FVOCI debt instruments and an SAR 101 million positive change in the fair value of its FVOCI equity instruments. Coupled with a net SAR 110 million transferred to the consolidated statement of income, a net SAR 20 million positive net change in the allowance for ECL in respect of debt instruments and a net SAR 2 million actuarial gain on defined benefit plans, this resulted in other comprehensive loss of SAR 566 million in 2018.

In 2017, the Group recorded an SAR 422 million positive change in the fair value of its available for sale investments, of which SAR 268 million was transferred to the consolidated statement of income, resulting in other comprehensive income of SAR 154 million for the year.

Total comprehensive income for the year

Reflecting the above factors and the Group's net income for each period, the Group's total comprehensive income in 2018 was SAR 2,526 million compared to SAR 4,100 million in 2017, a decrease of SAR 1,574 million, or 38.4 per cent.

Segmental analysis

The table below shows certain income statement and statement of financial position line items of the Group's reporting segments as at, and for, the year ended 31 December in each of 2018 and 2017.

	Retail banking	**Investment banking and brokerage**	**Corporate banking**	**Treasury and investment**
		(SAR million)		
Year ended/as at 31 December 2018				
Net special commission income	2,831.2	95.1	2,477.7	1,224.5
Net fee and commission income	362.3	266.6	1,077.1	5.1
Total operating income, net	3,197.4	379.8	3,576.0	1,814.1
Total net operating expenses	2,382.9	154.7	1,618.7	145.8
Net income before Zakat for the year	814.5	225.2	1,957.4	1,719.1
Total assets	56,293.6	1,135.2	110,221.4	62,249.3
Total liabilities	80,948.7	259.5	96,683.3	15,233.8
Year ended/as at 31 December 2017				
Net special commission income	2,349.5	91.2	2,464.4	1,029.9
Net fee and commission income	324.9	205.4	968.2	11.8
Total operating income, net	2,675.0	302.6	3,471.2	1,676.5
Total net operating expenses	1,774.1	138.0	2,128.5	161.7
Net income	900.8	164.6	1,342.6	1,537.9
Total assets	53,222.0	974.6	101,801.2	60,284.3
Total liabilities	67,966.4	186.9	94,902.4	14,603.5

Retail banking

The retail banking segment recorded total operating income, net of SAR 3,197 million in 2018 compared to SAR 2,675 million in 2017, an increase of SAR 522 million, or 19.5 per cent. Within total operating income, net, the retail banking segment's net special commission income increased by SAR 482 million, or 20.5 per cent., principally as a result of higher volumes and its net fee and commission income increased by SAR 37 million, or 11.5 per cent., mainly due to higher credit facility-related fee income. The retail banking segment recorded total net operating expenses of SAR 2,382 million in 2018 compared to SAR 1,774 million in 2017, an increase of SAR 609 million, or 34.3 per cent., principally reflecting an SAR 218 million impairment charge in respect of credit losses in 2018 compared to an SAR 76 million reversal of impairment charge in respect of credit losses in 2017.

The banking retail segment's net income in 2018 was SAR 815 million compared to SAR 901 million in 2017, a fall of SAR 86 million, or 9.6 per cent.

Investment banking and brokerage

The investment banking and brokerage segment recorded total operating income, net of SAR 380 million in 2018 compared to SAR 303 million in 2017, an increase of SAR 77 million, or 25.5 per cent. Within total operating income, net, the investment banking and brokerage segment's net fee and commission income increased by SAR 61 million, or 29.8 per cent., principally as a result of higher assets under management and local brokerage-related fee income. The investment banking and brokerage segment recorded total net operating expenses of SAR 155 million in 2018 compared to SAR 138 million in 2017, an increase of SAR 17 million, or 12.1 per cent., principally reflecting higher human resources and general expenses.

The investment banking and brokerage segment's net income in 2018 was SAR 225 million compared to SAR 165 million in 2017, an increase of SAR 61 million, or 36.8 per cent.

Corporate banking

The corporate banking segment recorded total operating income, net of SAR 3,576 million in 2018 compared to SAR 3,471 million in 2017, an increase of SAR 105 million, or 3 per cent. Within total operating income, net, the corporate banking segment's net fee and commission income increased by SAR 109 million, or 11.3 per cent. and its net special commission income remained substantially flat. The corporate banking segment recorded total net operating expenses of SAR 1,619 million in 2018 compared to SAR 2,129 million in 2017, a decrease of SAR 510 million, or 24.0 per cent., reflecting lower impairment charges in respect of credit losses in 2018 compared to 2017.

The corporate banking segment's net income in 2018 was SAR 1,957 million compared to SAR 1,343 million in 2017, an increase of SAR 615 million, or 45.8 per cent.

Treasury and investment

The treasury and investment segment recorded total operating income, net of SAR 1,814 million in 2018 compared to SAR 1,677 million in 2017, an increase of SAR 138 million, or 8.2 per cent. Within total operating income, net, the treasury segment's net special commission income increased by SAR 195 million, or 18.9 per cent., principally as a result of higher yield on investments. Its net fee and commission income decreased by SAR 7 million, principally as a result of lower fees from Islamic products and other fee-based services. The treasury segment recorded total net operating expenses of SAR 146 million in 2018 compared to SAR 162 million in 2017, a decrease of SAR 16 million, or 9.8 per cent., principally reflecting lower allocation expenses received from the Group's support divisions.

The treasury segment's net income in 2018 was SAR 1,719 million compared to SAR 1,538 million in 2017, an increase of SAR 181 million.

Liquidity and Funding

Overview

The Group's liquidity needs arise primarily as a result of the need to fund loans and advances to customers, the payment of expenses/dividends and investments in securities. To date, the Group's liquidity needs have been funded principally through deposits, the issuance of debt securities, operating cash flow, including special commission income received on its customer financing portfolio and its portfolio of debt investment securities, and the sale of investments. See "—*Funding*".

Liquidity

The table below shows the Group's cash flow from operating activities, investing activities and financing activities for each of the years ended 2019, 2018 and 2017.

	2019	2018	2017
		(SAR million)	
Net cash from operating activities	12,191.1	10,654.7	2,582.9
Net cash used in investing activities	(3,404.7)	(3,116.0)	(531.9)
Net cash used in financing activities	(2,757.6)	(6,246.4)	(1,982.2)
Cash and cash equivalents at 1 January	17,443.9	16,151.6	16,082.8
Cash and cash equivalents at 31 December	23,472.7	17,443.9	16,151.6

Operating activities

The Group's net cash inflow from operating activities in 2019 was SAR 12,191 million compared to SAR 10,655 million in 2018 and SAR 2,583 million in 2017. The Group's net cash flow from operating activities before changes in operating assets and liabilities principally reflects its net profit for the period adjusted to reflect its provisions for impairment losses, depreciation and its net unrealised gains on non-trading investments, dividend income, share of earning of associates and gains on trading. The changes in the Group's operating cash flows in each year principally reflect movements in operating assets and liabilities.

Investing activities

The Group's net cash used in investing activities was SAR 3,405 million in 2019 compared to SAR 3,116 million in 2018 and SAR 532 million in 2017.

The Group's net cash flows from investing activities principally reflect the purchase, sale and maturity of its non-trading investments. In 2019, the Group spent a net SAR 3,071 million on this activity compared to a net SAR 2,872 million in 2018 and a net SAR 360 million in 2017.

The Group's net purchases of property, plant and equipment amounted to SAR 334 million in 2019 compared to SAR 244 million in 2018 and SAR 172 million in 2017.

Financing activities

The Group's net cash used in financing activities in 2019 was SAR 2,578 million compared to SAR 6,246 million in 2018 and SAR 1,982 million in 2017. In 2019, the Group's net cash flow used in financing activities related entirely to its dividend payments. In 2018 the Group redeemed SAR 4,000 million of debt securities which it had issued in 2015 and paid SAR 2,246 million in dividends. In 2017, the Group's net cash flow used in financing activities related entirely to its dividend and Zakat payments.

Funding

Sources of funding

The Group's principal source of funding is its customer deposits. In addition, the Group's funding comprises its debt securities in issue and the interbank deposits accepted by it.

The Group also has access to a pool of unencumbered and liquid securities in the form of fixed income debt securities, mutual fund and equity securities that it can access to meet liquidity needs, in addition to its cash balances and placements with central banks and other financial institutions.

The Group's customer deposits were SAR 194,518 million, or 86.4 per cent. of its total liabilities, as at 31 December 2019, SAR 169,822 million, or 87.9 per cent. of its total liabilities, as at 31 December 2018 and SAR 154,366 million, or 86.9 per cent. of its total liabilities, as at 31 December 2017.

The Group continues to diversify its long-term deposit base. The issue of the Certificates under the Programme is intended to diversify the Group's sources of funding.

The table below shows the Group's funding in the form of amounts due to banks and other financial institutions, debt securities in issue and customer deposits as at 31 December in each of 2019, 2018 and 2017.

	As at 31 December		
	2019	**2018**	**2017**
		(SAR million)	
Due to banks and other financial institutions ...	13,124.5	8,580.5	7,056.2
Debt securities in issue....................................	4,003.0	4,003.8	8,016.6
Customer deposits...	194,517.9	169,822.2	154,365.5
Of which:			
Demand...	93,707.8	86,842.2	81,011.4
Savings...	525.6	459.7	366.4
Time	80,114.7	66,304.3	61,430.1
Other	20,169.7	16,216.0	11,557.7
Total funding..	211,645.4	182,406.5	169,438.4

The Group's customer deposits principally comprise demand deposits which amounted to 48.2 per cent. of its total customer deposits as at 31 December 2019 compared to 51.1 per cent. as at 31 December 2018 and 52.5 per cent. as at 31 December 2017.

The Group's demand accounts mostly do not pay special commission and amounts may be withdrawn from these accounts at any time without notice. The Group's time accounts do pay special commission and amounts can be withdrawn from these accounts at their maturity.

The Group believes that its demand accounts are diversified and sticky in nature, and constitute a stable and secure source of low cost funding.

The Group accepts deposits in both riyal and a range of other currencies.

Geographical breakdown

The table below shows the geographical breakdown of the Group's customer deposits as at 31 December in each of 2019, 2018 and 2017.

	Saudi Arabia	**Other GCC and Middle East**	**Europe**	**North America**	**Other countries**	**Total**
As at 31 December 2019	193,530.6	—	987.3	—	—	194,517.9
As at 31 December 2018	168,705.9	—	1,116.3			169,822.2
As at 31 December 2017	149,290.3	2,381.1	1,283.7	155.7	1,254.7	154,365.5

The Group's customer deposits are geographically concentrated in Saudi Arabia, which comprised 99.5 per cent. of customer deposits as at 31 December 2019, 99.3 per cent. as at 31 December 2018 and 99.0 per cent. as at 31 December 2017.

See "*Risk Factors—Risks relating to the Group—The Group has significant customer and sector concentrations*" and "*Risk Factors—Risks relating to the Group—The Group is subject to the risk that liquidity may not always be readily available*".

Maturity profile

The table below shows the maturity profile of the Group's funding as at 31 December 2019, 2018 and 2017. This analysis is based on when the funding is expected to be settled.

	Within 3 months	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
31 December 2019					
Due to banks and other financial institutions	4,638.4	7,853.9	—	632.2	13,124.5
Debt securities in issue	—	4,003.0	—	—	4,003.0
Customer deposits	165,458.6	20,679.1	8,278.2	102.0	194,517.9
Total	170,097.0	32,626.0	8,278.2	734.2	211,645.4
31 December 2018					
Due to banks and other financial institutions	7,575.4	373.1	—	632.1	8,580.5
Debt securities in issue	—	—	—	4,003.8	4,003.8
Customer deposits	152,179.2	14,389.9	3,214.9	38.1	169,822.2
Total	159,754.6	14,763	3,214.9	4,674.0	182,406.5
31 December 2017					
Due to banks and other financial institutions	6,999.9	56.3	—	—	7,056.2
Debt securities in issue	—	—	4,011.5	4,005.1	8,016.6
Customer deposits	146,648.3	6,223.1	1,455.1	39.1	154,365.5
Total	153,648.2	6,279.4	5,466.6	4,044.2	169,438.3

A significant proportion of the Group's funding disclosed in the table above as at 31 December 2019 is short term in nature, with 80.4 per cent. of such funding being repayable on demand or within three months and a further 15.4 per cent. being repayable within one year. See "*Risk Factors—Risks relating to the Group—The*

Group is subject to the risk that liquidity may not always be readily available". The issue of the Certificates is intended to help the Group diversify its sources of funding and to extend the average maturity of its funding base.

Given the state-run and oil-driven nature of the domestic economy, the Group's deposit base is, at least in the near future, expected to remain concentrated by depositor type, namely cash-rich Government and quasi-Government entities. See "*Risk Factors—Risks relating to the Group—The Group has significant customer and sector concentrations*".

Equity

For a discussion of the Group's share capital and reserves as at 31 December 2019, 2018 and 2017, see notes 16 to 18 to each of the 2019 Financial Statements and the 2018 Financial Statements.

Lending

Total customer financing portfolio

The Group's total customer financing portfolio (net of provisions) was SAR 173,982 million as at 31 December 2019. The table below shows the breakdown of the Group's total customer financing portfolio (net of provisions) as at 31 December in each of 2019, 2018 and 2017.

	Overdrafts	Credit cards	Consumer loans[1]	Commercial loans and advances	Others	Total
			(SAR million)			
31 December 2019						
Performing loans and advances	6,778.7	798.5	55,951.6	111,157.5	497.5	175,183.7
NPLs	95.5	—	378.0	1,078.1	2.6	1,554.1
Total gross customer financing portfolio	6,874.2	798.5	56,329.5	112,235.5	500.1	176,737.9
Allowance for impairment	(110.9)	(38.0)	(937.5)	(1,667.2)	(2.2)	(2,755.9)
Total net customer financing portfolio	6,763.3	760.5	55,392.0	110,568.3	497.9	173,982.0
31 December 2018						
Performing loans and advances	6,006.1	775.4	45,029.6	99,728.7	282.0	151,821.9
NPLs	62.8		243.4	1,255.2		1,561.4
Total gross customer financing portfolio	6,069.0	775.4	45,273.0	100,984.0	282.0	153,383.4
Allowance for impairment	(71.9)	(44.5)	(923.8)	(1,317.7)	(0.6)	(2,358.5)
Total net customer financing portfolio	5,997.0	730.9	44,349.2	99,666.2	281.4	151,024.8
31 December 2017						
Performing loans and advances	6,571.2	733.6	41,611.2	90,329.3	265.1	139,510.4
NPLs	418.8	—	200.3	791.8	1.3	1,412.2
Total gross customer financing portfolio	6,990.0	733.6	41,811.5	91,121.0	266.4	140,922.5
Allowance for impairment	(284.5)	(16.4)	(386.9)	(1,380.7)	(16.4)	(2,084.9)

	Overdrafts	Credit cards	Consumer loans(1)	Commercial loans and advances	Others	Total
			(SAR million)			
Total net customer financing portfolio	6,705.5	717.2	41,424.6	89,740.3	249.9	138,837.6

Note:

(1) Includes consumer mortgage loans.

The Group's customer financing portfolio is principally denominated in riyal. The Group believes that there is only limited structural cross-currency exposure as the majority of its assets and liabilities are match-funded in currency terms. In addition, the Group hedges a part of its currency exposure through the use of derivative contracts.

The majority of the loans within the Group's customer financing portfolio contain terms permitting it to adjust the special commission rate payable by the customer upon any change in the relevant interbank benchmark rate.

Distribution of customer financing portfolio by maturity

The table below shows the distribution of the Group's customer financing portfolio by maturity (based on when they are expected to be recovered or settled) as at 31 December in each of 2019, 2018 and 2017.

	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
As at 31 December 2019	50,970.6	30,184.1	43,660.9	49,166.5	173,982.0
As at 31 December 2018	50,246.4	26,432.3	37,924.6	36,421.5	151,024.8
As at 31 December 2017	40,731.5	18,668.4	36,917.9	42,519.8	138,837.6

Sectoral and geographical breakdowns of customer financing portfolio

The table below shows the sectoral breakdown of the Group's total customer financing portfolio as at 31 December in each of 2019, 2018 and 2017.

	As at 31 December					
	2019		2018		2017	
	(SAR million)	*(per cent.)*	*(SAR million)*	*(per cent.)*	*(SAR million)*	*(per cent.)*
Government and quasi Government	60.8	0.03				
Banks and other financial institutions	8,358.3	4.80	6,981.0	4.6	5,237.7	3.7
Agriculture and fishing	2,166.9	1.25	1,932.0	1.3	1,474.0	1.1
Manufacturing	24,188.8	13.90	24,666.5	16.3	23,934.9	17.1
Mining and quarrying	7,893.2	4.54	6,940.7	4.6	9,829.4	7.0
Electricity, water, gas and health services	3,187.7	1.83	3,097.4	2.1	2,266.9	1.6
Building and construction	14,792.3	8.50	14,863.7	9.8	13,011.4	9.3

	As at 31 December					
	2019		2018		2017	
	(SAR million)	*(per cent.)*	*(SAR million)*	*(per cent.)*	*(SAR million)*	*(per cent.)*
Commerce	43,004.6	24.72	35,949.9	23.8	32,558.2	23.3
Transportation and communication	4,746.3	2.73	3,879.8	2.6	4,548.9	3.3
Services	9,428.7	5.42	7,602.0	5.0	4,588.7	3.3
Consumer loans and credit cards	56,152.5	32.27	45,080.2	29.8	42,439.4	30.3
Other	1.9	0.00	31.7	0.0	20.5	0.0
Total, net of specific provisions	173,982.0	100.0	151,024.8	100.0	139,910.0	100.0
Portfolio provision					(1,072.3)	
Total loans and advances, net	173,982.0		151,024.8		138,837.6	

The Group's customer financing portfolio is concentrated on the manufacturing, commerce and building and construction sectors, which together comprised 47.1 per cent. of the customer financing portfolio as at 31 December 2019, 50.0 per cent. as at 31 December 2018 and 49.7 per cent. as at 31 December 2017. In addition, consumer loans and credit cards accounted for 32.3 per cent. of the customer financing portfolio as at 31 December 2019, 29.8 per cent. as at 31 December 2018 and 30.3 per cent. as at 31 December 2017.

These four sectors together accounted for 96 per cent. of the Group's NPLs as at 31 December 2019.

The table below shows the geographical breakdown of the Group's total customer financing portfolio as at 31 December in each of 2019, 2018 and 2017.

	Saudi Arabia	**Other GCC and Middle East**	**Europe**	**North America**	**Other countries**	**Total**
As at 31 December 2019	169,354.1	4,289.9	68.8	175.4	93.8	173,982.0
As at 31 December 2018	148,104.8	2,312.6	61.8	208.0	337.6	151,024.8
As at 31 December 2017	135,875.4	2,288.0	0.3	674.0	—	138,837.6

The Group's customer financing portfolio is geographically concentrated on Saudi Arabia, which comprised 97.3 per cent. of the customer financing portfolio as at 31 December 2019, 98.1 per cent. as at 31 December 2018 and 97.9 per cent. as at 31 December 2017. See "*Risk factors—Risks relating to the Group—The Group's customer financing portfolio, deposit base and investment securities portfolio are concentrated in Saudi Arabia*" and "*Risk factors—Risks relating to the Group—The Group has significant customer and sector concentrations*".

See also "*Risk management—Credit Risk Management*" for a discussion of the Group's loan origination and monitoring procedures, its loan classification system, collateral policy and an analysis of its non-performing loans and provisioning and write-off policies.

Investment Securities Portfolio

The Group's investment securities portfolio, which is reflected in its statement of financial position as investments, net, comprises fixed rate securities, floating rate securities, equity and other securities which, since 1 January 2018, have been held either as FVIS, FVOCI or at amortised cost. The securities are issued by both domestic and international issuers. The Group invests in these securities both to generate returns (as interest, dividend and capital gains) and to provide an additional source of liquidity when needed.

Structure of the investment securities portfolio

The table below summarises the Group's investment securities portfolio as at 31 December 2019, 2018 and 2017.

	As at 31 December		
	2019	**2018**	**2017**
		(SAR million)	
Investments at FVIS/held for trading equity investments	1,038.9	393.3	303.8
Investments at amortised cost	32,154.9	32,917.3	31,436.3
Investments at FVOCI – debt instruments	17,132.0	12,730.9	—
Investments at FVOCI – equity instruments	3,089.0	2,035.4	—
Available for sale investments (2017)	—	—	14,670.0
Less: impairment	(53.4)	(84.2)	(40.2)
Total	53,361.4	47,992.8	46,369.9

The Group's FVIS securities are measured at fair value, as were its available for sale investments in 2017.

Credit quality of the investment securities portfolio

The credit quality of the Group's investment securities portfolio as at 31 December 2019, 2018 and 2017 is set out in the table below.

	As at 31 December		
	2019	**2018**	**2017**
		(SAR million)	
Investment grade	40,369.3	36,479.7	34,773.1
Non-investment grade	5,433.6	4,310.5	3,597.1
Unrated	7,558.5	7,202.6	7,999.7
Total investment securities portfolio	53,361.4	47,992.8	46,369.9

The above classification is based on Standard & Poor's or equivalent credit ratings. The unrated investments category comprises mutual funds, equities and unrated fixed & floating securities.

Counterparties and geographic concentration

The table below shows the Group's investment securities portfolio as at 31 December 2019, 2018 and 2017 by type of counterparty.

	As at 31 December		
	2019	2018	2017
		(SAR million)	
Government and quasi-Government	29,325.1	28,414.5	28,084.6
Corporate	14,845.5	10,163.4	10,466.9
Banks and other financial institutions	9,190.8	9,414.9	7,818.4
Total investment securities portfolio	53,361.4	47,992.8	46,369.9

As at 31 December 2019, Government and quasi-Government issuers accounted for 55.0 per cent. of the Group's investment securities portfolio.

The table below shows the geographical breakdown of the Group's investment securities portfolio as at 31 December in each of 2019, 2018 and 2017.

	Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
As at 31 December 2019	34,109.3	2,088.4	4,543.1	8,893.2	1,040.1	2,687.2	53,361.4
As at 31 December 2018	32,472.6	2,336.2	2,995.0	8,222.4	417.5	1,549.1	47,992.8
As at 31 December 2017	31,115.1	1,915.1	2,847.5	9,200.0	371.9	920.3	46,369.9

The Group's investment securities portfolio is geographically concentrated in Saudi Arabia, which comprised 63.9 per cent. of the Group's investment securities portfolio as at 31 December 2019, 67.7 per cent. as at 31 December 2018 and 67.1 per cent. as at 31 December 2017.

See "*Risk factors—Risks relating to the Group—The Group's customer financing portfolio, deposit base and investment securities portfolio are concentrated in Saudi Arabia*" and "*Risk factors—Risks relating to the Group—The Group has significant customer and sector concentrations*".

Capital Adequacy

Capital adequacy, financial leverage and the use of various levels of regulatory capital are monitored regularly by the Group's management and are also governed by guidelines of the Basel Committee on Banking Supervision (the "**Basel Committee**") as adopted by SAMA.

In 2012, SAMA issued directives on the adoption of capital adequacy standards under the Basel III framework applicable to licensed banks in Saudi Arabia, effectively replacing and superseding the earlier Basel II requirements from 1 January 2013. The Basel III reforms strengthen the quality of capital and introduce several buffer requirements in line with proposals made by the Basel Committee. The SAMA Basel III framework consists of three Pillars:

- Pillar 1 provides a framework for measuring capital requirements for credit, operational and market risks;
- Pillar 2 relates to the supervisory review process and emphasises the importance of the Internal Capital Adequacy Assessment Process ("**ICAAP**") performed by banks; and
- Pillar 3 aims to complement the above capital adequacy requirements under Pillar 1 and Pillar 2 by requiring banks to provide a consistent and understandable disclosure framework which facilitates comparison, thus enhancing the safety and soundness of the banking industry in Saudi Arabia.

The Basel III framework raised both the quality and quantity of the capital base and increased capital requirements for certain positions. The minimum requirements for capital are underpinned by a leverage ratio that serves as a backstop to the risk-based capital measures. There are also buffer requirements in the form of a capital conservation buffer, a counter-cyclical capital buffer and an additional surcharge for banks designated as domestic systemically important.

A key objective for the Group is to maximise shareholders' value with optimal levels of risk, whilst maintaining a strong capital base to support the development of its business and comply with externally imposed capital requirements. The Group aims to ensure adherence to SAMA's requirements by monitoring its capital adequacy and adopting both a capital forecasting process that ensures that pro-active action is taken where necessary and a strategy that ensures that a sufficient capital buffer above minimum required levels is maintained at all times.

As at 31 December 2019, the Group's tier 1 capital adequacy ratio (calculated according to Basel III standards for Pillar 1) was 16.3 per cent. and its total capital adequacy ratio was 18.1 per cent. The Group has been designated as a domestically systemic important bank ("**D-SIB**") with an additional Common Equity Tier 1 D-SIB surcharge of 0.5 per cent. Accordingly, the Group's total minimum Pillar 1-based capital requirement as at 31 December 2019 is 11.05 per cent., which also includes a capital conservation buffer of 2.5 per cent. and a countercyclical capital buffer of 0.05 per cent.

The table below shows the composition of the Group's regulatory capital and its capital ratios as at 31 December in each of 2019, 2018 and 2017 (determined in accordance with Basel III as implemented in Saudi Arabia).

	As at 31 December		
	2019	**2018**	**2017**
	(SAR million, except percentages		
Credit risk weighted assets	229,293.2	210,879.8	207,783.4
Operational risk weighted assets	16,561.8	14,705.1	14,035.2
Market risk weighted assets	3,701.4	2,330.2	1,251.0
Total risk weighted assets	249,556.5	227,915.1	223,069.6
Tier 1 capital	40,571.5	36,774.2	38,623.0
Tier 2 capital	4,513.4	4,383.7	5,072.3
Total regulatory capital	45,084.8	41,157.9	43,695.3
Tier I capital adequacy ratio	16.3%	16.1%	17.3%
Total capital adequacy ratio	18.1%	18.1%	19.6%

The Bank is also subject to a SAMA Basel III leverage ratio requirement of 3.0 per cent. The Bank's leverage ratio was 12.2 per cent. as at 31 December 2019, 12.4 per cent. as at 31 December 2018 and 13.6 per cent. as at 31 December 2017. The Bank's leverage ratio for these periods has been calculated in accordance with the Basel III leverage ratio and disclosure requirements.

Commitments and Contingent Liabilities

The Group has contingent liabilities in respect of irrevocable commitments to extend credit that it has made, as well as in relation to acceptances, letters of credit and guarantees issued by it.

The table below shows the Group's commitments and contingent liabilities as at 31 December in each of 2019, 2018 and 2017.

	As at 31 December		
	2019	**2018**	**2017**
		(SAR million)	
Letters of credit	9,197.8	8,119.0	8,328.1
Letters of guarantee	61,546.9	64,401.0	64,588.2
Acceptances	2,416.6	1,828.8	2,026.6
Irrevocable commitments to extend credit	12,336.5	11,625.9	9,889.5
Total commitments and contingencies	85,497.9	85,974.7	84,832.4

Related Party Transactions

The Group's principal related party transactions are with its directors and other major shareholders (being shareholders holding more than 5 per cent. of the Bank's issued and paid up share capital), their close family members and companies controlled by them or their close family members, as well as with associates of the Group. Certain related parties are customers of the Group in the ordinary course of business. Transactions with related parties are made on substantially the same terms, including special commission rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties and do not involve an amount of risk that is higher than the amount of risk taken in comparable transactions with unrelated parties.

Further information on the Group's related party transactions in each of 2019, 2018 and 2017 is set out in note 34 to the 2019 Financial Statements and in note 34 to the 2018 Financial Statements.

RISK MANAGEMENT

Introduction

The role of risk management is to understand, measure and manage risk in all aspects of the Group's business. Management aims to embed a risk management culture in all of the Group's business processes and to ensure that a risk management culture is adopted throughout the organisation. Accordingly, management seeks to continually improve the Group's risk management in line with industry standards and SAMA guidelines and by investing in the right people and systems.

The Group's risk management framework is focused on fully integrating enterprise-wide risk management into its operations and culture. The risk management structure covers credit risk, market risk, liquidity risk, legal risk, operational risk, compliance and remedial management. Management seeks to ensure that risks are proactively identified and managed and it aims to achieve an appropriate balance between risk and return and to minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The Group's risk management policies and systems are reviewed regularly to reflect changes in market conditions, emerging best practices and the products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

Risk Governance Structure

The Board of Directors is responsible for ensuring that the Group is organised effectively and efficiently and is run in accordance with all appropriate regulatory and corporate governance requirements. Relevant corporate governance and risk-related Board committees include the Executive Committee, the Audit Committee, the Risk Management Committee, the Nominations and Compensations Committee and the Strategic Planning Group and each of these is described further in "*Management and Employees—Management—Board of Directors—Committees of the Board*".

The Board carries out the core responsibilities of setting the Group's risk appetite, approving the Group-wide risk frameworks and relevant policies, monitoring compliance with Board approved risk limits and monitoring progress on implementation of strategic risk-related projects as well as compliance with all regulatory matters. These high level frameworks and policies provide the fundamental corporate governance principles and guidance for risk taking, managing and monitoring activities throughout the Group.

Risk management is an independent function from the business, headed by the Chief Risk Officer ("**CRO**") and comprises both the Credit division and the Internal Control and Market Risk ("**ICMR**") division. The Credit division screens credit applications, monitors the credit approval process, reviews and manages the credit portfolio and problem accounts. The ICMR division assists the business areas in managing their risks by providing advice on procedural evaluation and design, risk assessment services, operational risk monitoring and investigation, the building of effective historical records, loss management capture methodology, exceptions reporting and market and fiduciary risk review and monitoring.

Risk management supports the Group's capital markets businesses and the ALCO by conducting regular analysis of the Group's interest rate, foreign exchange and liquidity risks using simulation models and also monitors the risks and profitability of the treasury and investment and investment banking and brokerage businesses.

The Group's fundamental risk management goal is to build a culture of risk understanding so that better decisions can be made at every level. Risk culture is an integral part of the Group's overall corporate culture. The conservative risk profile is embedded in the risk culture by means of internal communications and training and is monitored through periodic performance assessment.

The CRO is responsible for the actual risk profile and risk processes in the Group for all risk types (including credit, market, operational and liquidity risk) across all products and business segments.

The ICD reports to the Executive Vice President ("**EVP**") Internal Control & Market Risk and its objective is to further strengthen the risk governance framework within the Group through development and implementation of an integrated internal control governance and reporting framework. This framework covers all business divisions and control functions within the Group and provides the Board and executive management with effective oversight of internal control across the Group.

Credit Risk Management

Introduction

Credit risk is the risk of losses arising as a result of a counterparty of the Group not fulfilling its contractual obligations or the quality of a counterparty deteriorating. Credit risk principally arises from the Group's financing, trade finance and treasury activities. The Group's overall credit exposure is evaluated on an ongoing basis to ensure a broad diversification of credit risk. Potential concentrations by country, product, industry and risk grade are regularly reviewed to avoid excessive exposure and ensure a broad diversification.

Credit approval process

The Bank has separate credit approval processes for its retail and commercial loans.

Retail loans

The Bank uses sophisticated risk management techniques for consumer loan acquisition and for managing its consumer loan and credit card portfolios. The 'Origination Manager Decision Module' is used to host and automate the Bank's risk acceptance criteria for each retail product, which is updated on an annual basis and supported by origination and behavioural scorecard models in the approval and line management process.

Detailed risk acceptance criteria and limits for approving new loans, renewals, limits increases, rescheduling, deletions and other cases are set out for consumer loan and credit card products to streamline the processing of large volumes of transactions. These criteria are established based on discussions of portfolio performance among the departmental management teams responsible for each line of business and senior management committees. Provisions are calculated based on IFRS 9 guidelines using an integrated modular approach in an automated environment for business and regulatory reporting. This calculation methodology uses the ECL impairment model for all performing and non-performing loans.

The Retail Risk Management Committee, which is an executive management sub-committee, is tasked with oversight responsibilities for ensuring effective implementation of the Board-approved credit strategy and credit risk management framework specifically designed for credit risk arising from the Bank's retail banking business.

Commercial loans

All applications for commercial and corporate credit facilities are subject to the Bank's credit policies, including economic sector limits, underwriting standards and regulatory requirements. The credit applications generation function is handled by the relevant relationship manager. An analysis of the client's financial statements and business operations is carried out by the relationship manager and the analytics unit to confirm the client's ability to repay the proposed credit facilities and any other debt obligations. This analysis along with the Bank's understanding of the client's business environment are presented to the relevant approving committees.

The Bank uses Moody's to evaluate the credit risk of all corporate and commercial customers. The financial analysis process includes assessment of revenues and profitability, operations, liquidity, cash flow, work progress (for contractor finance), capital structure and business analysis covering industry risk, management quality and company standing.

Country limits have been defined to manage cross-border risk. The Bank uses international credit risk ratings issued by international credit rating agencies to evaluate the credit risk of sovereign, international corporate and financial institutions, as well as to assign the risk rating for each country and obligor. The country and obligor credit limits are regularly reviewed by the Credit department.

Commercial credit requests must be in line with the underwriting criteria specified in the Bank's credit risk policies and product policies. Initial credit risks are analysed by the originating business segments, analytics and the line manager before being independently assessed by the credit review function.

The Bank continues to introduce new initiatives such as risk based pricing and updating provision methodology, to address newly introduced risk assessment, control and reporting requirements. The effective implementation of these initiatives in the past has enhanced the risk management and decision making processes at the Bank. In addition, it has also improved the infrastructure for reporting key risk-related information, particularly that used by the Board and senior management to identify, monitor and manage risks, as well as enhanced the communication of information to outside stakeholders.

General

Every extension of credit or material change to a credit facility (such as its tenor, collateral structure or major covenants) to any counterparty (whether business or personal) requires a credit approval at the appropriate authority level.

Credit rating and measurement

The Bank's risk rating system is the basis for determining the credit risk of its asset portfolio and, therefore, appropriate asset pricing, the portfolio management strategy and loss provisions and reserves. The risk rating system is also the basis for credit approval authority delegation.

The Bank uses a standard numeric credit risk-grading system which is based on its internal estimate of probability of default ("**PD**"), with customers or portfolios assessed against a range of quantitative and qualitative factors, including taking into account the counterparty's financial position, past experience and other factors.

Performing clients are rated on a 20 point scale of 1 to 20, each grade being associated with a defined level of PD. Non-performing clients are rated 21, 22 and 23. Each individual borrower is rated based on an internally developed debt rating model that evaluates risk based on financial as well as qualitative inputs. The risk rating categories drive the due diligence and approval process, and these ratings are reviewed at least annually or sooner if any adverse signs are visible.

The Bank uses Moody's credit risk system to grade customer exposures and uses historical data to calculate the PD for each obligor. The Bank also considers factors influencing the internal risk rating process such as the provision of accurate and timely financial information, timeliness of payments, the nature of the industry, the level of experience of the borrower's management, facility usage patterns and comparisons with externally available data and economic trends for the industry concerned. Upgrades and downgrades in risk ratings may take place at any time based on assessment of the above factors. Retail lending is carried out using Fair Isaac automated risk scoring tools.

Credit monitoring

The Bank monitors its credit exposures on a regular basis as well as any external trends which may impact risk management outcomes. Internal risk management reports, containing information on key variables, portfolio delinquency and impairment performance, are presented to the CRO and the Board Risk Management Committee. All corporate exposures are monitored carefully for performance and reviewed formally on an annual basis or earlier. The Bank's policies mandate client visits and monitoring of accounts to make sure that any concerns on the quality of the accounts are addressed proactively.

All non-performing accounts are monitored closely by the Bank. Loans with watch list or special mention ratings are monitored and managed by a dedicated unit. The CRO takes responsibility for managing and monitoring loans rated as substandard and doubtful with a view to improving the chances of collection and/or the status of the loans. All loans rated as loss are dealt with by a separate collection and recovery function. Remedial actions include, but are not limited to, exposure reduction, security enhancement and exit of the account.

The asset quality of the Bank's retail finance portfolio is monitored closely and all 30-, 60- and 90-day past due accounts and delinquency trends are monitored continuously for each product. Individual customer behaviour is also tracked and this forms an input for future financing decisions. Accounts which are past due are subject to a collection process, which is managed independently by the Bank's operations with oversight by the Retail Risk Management Department. Write-offs and provisioning for the retail finance portfolio are carried out in accordance with SAMA guidelines.

Credit mitigation

The Bank seeks to mitigate potential credit losses from any given account, customer or portfolio using a range of tools, including taking collateral or guarantees in particular. The reliance that can be placed on these credit mitigation resources is carefully assessed taking into account their legal enforceability, the market value of any collateral and the counterparty risk of any guarantor.

The Bank accepts a range of collateral types, including cash deposits; residential, commercial and industrial property; fixed assets such as motor vehicles, aircraft, plant and machinery; marketable securities; commodities; individual, corporate and bank guarantees; and LCs. The amount and type of collateral collected mainly depends on the nature of transaction and the Bank's risk mitigation policies control the approval of different collateral types.

The Bank's credit risk policy acknowledges the role played by credit risk mitigation in the management of credit risk but emphasises that collateral on its own is not necessarily a justification for financing. The primary consideration for any financing opportunity must be the borrower's financial position and ability to repay the facility from its own resources and cash flow.

The Bank's credit risk policy and procedures ensure that credit risk mitigation techniques are acceptable, used consistently, valued appropriately and with the frequency required by the policy and meet the risk requirements of operational management for legal, practical and timely enforceability.

Security valuations are made at the time of financing and the security is revalued appropriately if there are indications that the value may have fallen over time. Guarantees and related legal contracts are often required, particularly in support of credit extended to groups of companies and weaker counterparties. Guarantor counterparties include banks, parent companies, shareholders and associated counterparties. Creditworthiness is established for the guarantor as for other counterparty credit approvals.

The Bank repossesses collateral where appropriate and this collateral is realised in accordance with its approved credit policy and credit manual pertaining to collateral management.

Performing and non-performing loans and provisioning

The tables below show the Group's loans and advances, net by type and status as at 31 December in each of 2019, 2018 and 2017.

	Overdrafts	Credit cards	Consumer loans	Commercial loans	Others	Total
			(SAR million)			
As at 31 December 2019						
Performing	6,778.7	798.5	55,951.6	111,157.5	497.5	175,183.7
Non-performing	95.5	—	378.0	1,078.1	2.6	1,554.1
Total	6,874.2	798.5	56,329.5	112,235.5	500.1	176,737.9
Allowance for impairment	(110.9)	(38.0)	(937.5)	(1,667.2)	(2.2)	(2,755.9)
Loans and advances, net	6,763.3	760.5	55,392.0	110,568.3	497.9	173,982.0

	Overdrafts	Credit cards	Consumer loans	Commercial loans	Others	Total
			(SAR million)			
As at 31 December 2018						
Performing	6,006.1	775.4	45,029.6	99,728.7	282.0	151,821.9
Non-performing	62.8	—	243.4	1,255.2	—	1,561.4
Total	6,069.0	775.4	45,273.0	100,984.0	282.0	153,383.4
Allowance for impairment	(71.9)	(44.5)	(923.8)	(1,317.7)	(0.6)	(2,358.5)
Loans and advances, net	5,997.0	730.9	44,349.2	99,666.2	281.4	151,024.8

	Overdrafts	Credit cards	Consumer loans	Commercial loans	Others	Total
			(SAR million)			
As at 31 December 2017						
Performing	6,571.2	733.6	41,611.2	90,329.3	265.1	139,510.4
Non-performing	418.8	—	200.3	791.8	1.3	1,412.2
Total	6,990.0	733.6	41,811.5	91,121.0	266.4	140,922.5
Allowance for impairment	(284.5)	(16.4)	(386.9)	(1,380.7)	(16.4)	(2,084.9)
Loans and advances, net	6,705.5	717.2	41,424.6	89,740.3	249.9	138,837.6

See notes 30.4(a) to the 2019 Financial Statements and 30.4(a) to the 2018 Financial Statements for an ageing analysis of loans as at 31 December in each of 2019, 2018 and 2017. The impact of IFRS 9 on the Group's statement of financial position as at 1 January 2018 is described in note 3.1 to the 2018 Financial Statements. The most significant effects were an SAR 2.0 billion reduction in retained earnings principally as a result of the recognition of expected credit losses under IFRS 9 and an SAR 1.4 billion, or 1.0 per cent., reduction in the carrying value of the Group's net loans and advances.

With effect from 1 January 2018, the Bank has made its impairment in accordance with IFRS 9.

The tables below show movements in the Bank's impairment for credit losses as at 31 December in each of 2019, 2018 and 2017.

	Total
	(SAR million)
As at 31 December 2019	
Balance at the beginning of the year	2,358.5
Provided during the year, net	1,173.9
Bad debts written off against provision	(776.5)
Loans and advances, net	2,755.9

	Total
	(SAR million)
As at 31 December 2018	
Closing loss allowance as at December 31, 2017 (calculated under IAS 39)	2,084.9
Amounts restated through opening retained earnings	1,426.1
Opening loss allowance as at January 1, 2018 (calculated under IFRS 9)	3,511.0
Provided during the year, net	981.6
Bad debts written off against provision	(2,134.0)
Balance at the end of the year	2,358.5

	Credit cards	Consumer loans	Commercial loans[(1)]	Portfolio provision	Total
			(SAR million)		
As at 31 December 2017					
Balance at 1 January	—	42.1	1,463.1	1,072.3	2,577.5
Provided during the year, net	56.5	421.4	1,644.5	—	2,122.5
Bad debts written off	(56.5)	(357.7)	(1,909.4)	—	(2,323.6)
Recoveries of amounts previously provided	—	—	(263.8)	—	(263.8)
Other movements[(2)]	—	—	(27.6)	—	(27.6)
Loans and advances, net	—	105.8	906.8	1,072.3	2,084.9

Notes:

(1) Includes overdrafts and other loans.

(2) Represents unwinding of accrued special commission income on impaired financial assets.

Market Risk Management

Introduction

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as special commission rates, foreign exchange rates and commodity and equity prices. The Group classifies exposures to market risk into traded and non-traded. The market risk for the trading book is managed and monitored using a combination of position limits, VaR methodology, stress testing and sensitivity analysis. Market risk for the non-trading book is managed and monitored using a combination of VaR, stress testing and sensitivity analysis.

The Bank's Market and Liquidity Risk Management Department comprises the following sections:

Asset Liability Management Section

The asset and liability management section supports the Bank's capital markets businesses and the ALCO. The asset and liability management section conducts regular analysis of the Bank's interest rate and liquidity risks using simulation models. These measures include net interest income at risk, market VaR and liquidity which is reported to the ALCO and the Board.

Market Risk Management Section

The market risk management section covers the monitoring of market risk on the Bank's trading and banking books and also the international investments portfolio. The section also conducts a daily analysis of the risks on banking and trading books under stress scenarios along with daily back testing to record any breaches. The section is also responsible for the capital charge calculation and reporting the same under normal and stressed conditions.

Treasury Middle Office ("TMO") Section

The TMO independently monitors the risks and profitability of the Bank's treasury and investments segment. It ensures the segregation and integrity of key reporting processes, especially the market rate revaluation process, and ensures that Treasury complies with the approved limits structure. It also assists the treasury and investments segment with business and systems developments.

Risk Reporting

Risks and control effectiveness are reported to the Bank's management to ensure that managers within the business lines, and at senior levels, are able to engage in an informed decision making process. As the first line of defence against risks, it is the responsibility of line managers, and senior managers, to be able to manage risks in accordance with the Board's approved risk appetite.

Risk reports are provided to managers and senior management on a regular basis to ensure that management has the opportunity to assure themselves that the Bank's risk positions are within limits and in line with its current strategy. Typically, these would be provided to senior management on a monthly or weekly basis for the purposes of holding the various risk committee meetings and reviews. Line managers, supervisors and staff directly responsible for managing risk on a day to day basis, would receive full positions reports on a much more frequent basis.

The general policy within the Bank is for risk issues to be raised with the line manager first, then to escalate such issues to the senior manager responsible for that area. Risk matters are also escalated to the relevant risk committee, either immediately, if critical, or as part of the normal reporting process, if less urgent. If insufficient action is taken as a result of this reporting and escalation process, staff and risk managers have the authority to take matters further, such as to the Chief Risk Officer, to the Chief Executive Officer, to the Bank's internal audit department, or in very extreme cases, to the Board or to external auditors.

Independent risk reporting is also a key component of the risk reporting controls. Separation between the group creating the risk (the risk taking business unit) and the unit reporting the risk level (the risk monitoring unit) is very common throughout the Bank. The internal audit department continuously monitors this fundamental segregation of duties within the Bank. The Risk Management division also takes this into account when assessing the risk within business units. Much of the Bank's risk reporting is prepared and delivered by various units within the Risk Management division as an independent check.

For enterprise-wide risk reporting purposes, a tabular risk weight was developed to provide a comprehensive description of the risk coverage in the Bank. It is based on all risk types relevant to the Bank and how each respective risk weight is governed, evaluated, managed, monitored and reported within the Bank as well as the frequency of such reporting.

The Bank deploys adequate risk management systems for effective measurement, monitoring and reporting. For market risk, Kamakura Risk Manager is used by the Bank, which is widely acknowledged and used for VaR and other liquidity risk measures such as Net Interest income at Risk and Economic VaR. The systems are regularly assessed and upgraded for improvement in risk measurement and adherence to regulatory changes.

Operational Risk Management

Operational risk is the risk of direct or indirect loss arising from inadequate or failed people processes and technology and infrastructure within the Group, and also from external events (other than credit, market and liquidity risks), such as those arising from disruptive business events, natural disasters, non-compliance with legal and regulatory requirements and failure to apply generally accepted standards of corporate behaviour. The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to its reputation, assets and personnel with overall cost effectiveness.

The Group uses a comprehensive approach towards operational risk management.

The Group's operational risk management department ("ORMD") is an independent second line function within the Internal Control and Market Risk Division that delivers operational risks identification, assessment, as well as treatment, monitoring, insurance and reporting. The primary responsibility of ORMD is to ensure all the associated risks are adequately addressed and mitigated to address operational risks. The key responsibility is to have an appropriate oversight on the risk owners to ensure the existence of overall standards for the management of operational risk in the following areas:

- segregation of duties, including the independent authorisation of transactions;
- reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- reporting of operational losses and proposed remedial action;
- training of professional development of employees for operational risk awareness;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

ORMD comprises the following sections:

(1) Risk analysis section;

(2) Examination and investigation section;

(3) Operational loss analysis section;

(4) Insurance section; and

(5) Risk Monitoring and Reporting Section.

Risk analysis section

The role of the risk analysis section is to manage the Bank's operational risk through the following key activities:

- developing an operational risk management framework, policy, methodology and strategy, in line with best practice and the needs of the Bank;
- ensuring all the new or significant changes to the Bank's existing products, services and projects are adequately risk assessed and mitigated;
- providing appropriate oversight of the change requests relating to the technology, processes, products and services;
- identifying, measuring and reporting on key risk indicators;
- improving risk awareness and control in the Bank through presentations, workshops and a programme of proactive interaction with the Bank's management;
- recording all risks, controls and mitigation strategies in the Bank's risk and control register; and
- providing both detailed and summary reports on the operational risk profile of the Bank and its business segments to the Board and senior management.

Examinations and investigation section (the "E&I")

The E&I is one of the key functions within the operational risk management department which performs a risk based examination of the Bank's branches network and business units in accordance with the E&I approved methodology to minimise operational risk exposures. Additionally, the E&I is responsible for investigations of operational loss and 'near miss' incidents and providing advice sought by the Bank's business units.

Examinations

The below are examination activities carried out by the E&I that are relevant to the branches and business units:

- Examine the effectiveness of controls implemented within operational processes at branches to ensure compliance with current policies and procedures and regulatory guidelines in accordance with the integrated risk approved plan.
- Monitor action plans for ensuring timely remediation across branches and business units.
- Periodic risk and control self-assessments are conducted by the business risk owners and monitored by the E&I section.

Investigations

The E&I is also responsible for conducting Bank-wide ad-hoc investigations in the event of any of the following:

- Near miss incidents.
- Operational losses incidents (to identify the root-cause based on technical reports).

- Process, control, system and people failure.

Advisory activities

The E&I also provides advice on specific matters in relation to design and implementation of policies and procedures. The following are the two types of advisory activities that the E&I engages in:

- As part of the Procedures Review Committee, the E&I reviews new policies and procedures and provides inputs on operational risks.
- *Ad-hoc* consultations on operational risk matters sought by business units.

Follow-up and closure

The E&I follows the management approved "Follow-up, closure and escalation process" to ensure effective implementation of recommendations.

Management Reporting:

All identified operational risk findings are reported to the RMCC on a monthly basis.

Operational loss analysis section:

The operations loss analysis section builds an ongoing historical record of losses, allowing the Bank to become fully aware of operational risks and how risks change over time. The primary objective of the section is to minimise operational risk through the timely recording, tracking, analysis, reporting and risk transfer of all losses experienced by the Bank.

In addition, the risk transfer also depends on the recommendations, analysis and statistics prepared by the loss section in order to transfer risk, for instance to insurance companies, etc.

Event / incident reporting is considered to be a major activity in the way the Bank manages risk and the purpose of the event / incident is to:

- Propose, monitor and report risk appetite from the Bank's operational risk perspectives.
- Ensure that all the adverse incidents / events or near misses are accurately reported, recorded and managed on a timely basis.
- Prevent the reoccurrence of adverse incidents / events both financial and non- financial.
- Provide an "early warning" system to avoid any potential financial and non-financial loss.
- Increase the Bank's awareness and responsiveness to risk.
- Ensure sufficient information is obtained to:
    - Meet internal and external reporting requirements.
    - Put in place appropriate controls to avoid future risks.
    - Analyse available information to avoid future risk through "learning of lessons" from past incidents / events made.

Insurance section

The insurance section manages the Bank's insurance plans and risk transfer of all operational losses faced by the Bank in accordance with the Board approved risk management framework in order to ensure that the operational risks faced by the Bank are minimised through a cost-effective insurance programme that provides protection against insurable risks.

The primary objective of the Insurance section is to ensure that appropriate level of cover is maintained for insurable risks across the bank's business areas, and for the design, placement and administration of the Bank's insurance plan.

Technology Risk Department

The Bank's technology risk department is the second line of defence department within the Internal Control and Market Risk Division that is responsible to define and maintain technology risk categories, technology risk appetite, develop processes, and to establish what activities needs to be monitored, how it will be monitored and who will be monitoring based on the management approved technology operating model. The department is also responsible for conducting technology risk assessments on high risk areas and acting as a custodian of the technology risk register.

The department will continuously monitor the effectiveness of technology governance of the Bank and report on technology risk metrics and key technology related matters to the Management Committees and to the Board Risk Management Committee.

MANAGEMENT AND EMPLOYEES

Management

Board of Directors

In accordance with the Saudi Companies Regulations and the Bank's by-laws, the Bank's executive management comprises the Board and a Management Executive Committee (the "**MEC**").

The Board is made up of 10 members, including the Chairman. The Chairman is required to be a Saudi national. Each member of the Board is appointed by the Bank's shareholders and is elected every three years. The current members of the Board were all elected in October 2019. There were seven meetings of the Board in 2018 and seven meetings in 2019. The Board is required to meet at least four times a year and no less than once every three months.

The business address of each of the directors is Riyad Bank Building, Granada Business Park 2414 Ash Shuhada dis, Riyadh 13241-7279, Kingdom of Saudi Arabia. There are no potential conflicts of interest between the duties owed to the Bank by the persons listed below and their private interests or other duties.

The current members of the Board are:

Name	Position
Eng. Abdullah Mohammed Al-Issa(1)	Chairman
Eng. Mutaz Kusai Al-Azzawi(2)(5)	Vice Chairman
Mr. Ibrahim Hassan Sharbatly(4)	Member
Mr. Jamal Abdul-Karim Al-Rammah(3)(10)	Member
Mr. Talal Ibrahim Al-Qudaibi(4)(6)(7)	Member
Mr. Abdul-Rahman Amin Jawa(4)(5)	Member
Mr. Mohammed Talal Al-Nahas(4)	Member
Mr. Mohammed Abdulaziz Al-Afaleq(5)(8)	Member
Mr. Mohammad Omair Al-Otaibi(3)(9)	Member
Mr. Nader Ibrahim Al-Wehibi(5)(6)	Member

Notes:

(1) Chairman of the Strategic Planning Group

(2) Chairman of the Nomination and Compensation Committee

(3) Member of the Risk Management Committee

(4) Member of the Strategic Planning Group

(5) Member of the Executive Committee

(6) Member of the Nomination and Compensation Committee

(7) Chairman of the Executive Committee

(8) Chairman of the Risk Management Committee

(9) Member of the Audit Committee

(10) Chairman of the Audit Committee

Set out below is brief biographical information about each member of the Board.

Eng. Abdullah Mohammed Al-Issa (Chairman)

Mr. Al-Issa has been a member of the Board since 2007 and the Chairman of the Board since December 2016. He holds a Bachelor's degree in Industrial Engineering and a Master's degree in Engineering Project Management from Southern Methodist University, USA, with extensive experience in management, investment and banking.

Mr. Al-Issa is currently the Chairman of the Board of Directors of Dur Hospitality Co. and Assila Investments, the Vice Chairman of Etihad Etisalat Co. (Mobily), and the Chairman of the Board of Directors of Abdullah Mohammed Al-Issa Office (Consultant Engineers).

He is also a member of the Board of Directors of various companies, including SABIC and Ma'aden.

Eng. Mutaz Kusai Al-Azzawi (Vice Chairman)

Mr. Al-Azzawi has been a member of the Board since 2016 and the Vice Chairman of the Board since October 2019. He holds a Bachelor's degree in Computer Engineering from King Saud University, with more than 22 years of experience in business, commerce and investment in the financial markets.

Mr. Al-Azzawi is currently the Executive Director and a member of the Board of Directors of Saudi Industrial Construction & Engineering Project Co Ltd., Saudi Trading & Technology Co. Ltd, and AlWusataa Development Co.

He is a member of the Board of Directors of various companies, including Savola Group, Arabian Cement Co., Etihad Etisalat Co. (Mobily), Savola Foods, Herfy Food Services Co., United Sugar Co., and Afia Int'l Co. KSA.

Mr. Ibrahim Hassan Sharbatly

Mr. Sharbatly has been a member of the Board since 2016. He holds a Bachelor's degree in Business Administration from College of Commerce, Bristol UK, with extensive experience in business, investment and real estate development.

Mr. Sharbatly is currently the Chairman of the Board of Directors of the First Group International Company, and the Vice Chairman of Al-Nahla Group and the Saudi Arabian Marketing & Agencies Company Ltd (SAMACO), Al-Ameen Distinctive, Fast Auto Technic (Fast), and Jeddah Holding Company. He holds various executive and board membership positions in several companies.

Mr. Jamal Abdul-Karim Al-Rammah

Mr. Al-Rammah has been a member of the Board since 2016. He holds a Bachelor degree in Business and Economics, Harvard Executive Program from Harvard University, USA, in addition to several financial and administrative programs inside and outside the Kingdom.

Mr. Al-Rammah is a member of the Association for Financial Professionals and served as the Treasurer of the world's largest oil company, Saudi Aramco and retired with more than 34 years of experience. He was in charge of various financial risk departments, reduced the impact of risk on the company at Saudi Aramco. He also managed the local and global pension fund's investments, insurance programs, financing programs, Joint ventures, subsidiaries and affiliates.

Furthermore, Mr. Al-Rammah held several senior positions in logistics and finance management, including the General Auditor of the Internal Audit Department, the General Controller of Accounts, the General Manager of the Financing and Development joint ventures local and global. Under his leadership, more than USD 25 billion were financed and USD 3 billion worth of Sukuk were issued.

Mr. Al-Rammah previously served as the Chairman of the Saudi Aramco Insurance (Stellar) and held several Board memberships in other Saudi Aramco affiliates, subsidiaries local and international companies. He is also a member of many advisory and executive committees.

Mr. Talal Ibrahim Al-Qudaibi

Mr. Al-Qudaibi has been a member of the Board since 2016. He holds a Bachelor degree in Business Administration from Portland State University and a Master degree in Economics from University of Southern California, USA.

Mr. Al-Qudaibi has more than 30 years of experience in international banking and investment, having previously served as the CEO of Riyad Bank from 2002 to 2016 (in addition to other executive roles). He is a member of the Board of Directors of Riyad Capital and board member of several financial institutions abroad.

Mr. Abdul-Rahman Amin Jawa

Mr. Jawa has been a member of the Board since 2016, representing the Public Investment Fund. He holds a Bachelor degree in International Business Administration from Ohio University and the Advanced Management Program, Harvard University, Harvard Business School, USA, with extensive experience in banking and investment.

Mr. Jawa is currently the Chairman of the Board of Directors of the Saudi Company for Hardware (SACO).

Mr. Mohammed Talal Al-Nahas

Mr. Al-Nahas has been a member of the Board since 2016, representing the Public Pension Agency. He holds a Bachelor's degree in Accounting from King Saud University and the Executive Management Program from University of Michigan, USA, with more than 32 years of experience in banking and business development.

Mr. Al-Nahas is currently the Governor of the Public Pension Agency, and the Chairman of the Board of Directors of Al Ra'idah Investment Company, Raza Company and Al Taawuniyah Real Estate Investment Co, and ASMA Capital.

He is a member of the Board of Directors of various companies, including Saudi Telecom Co. (STC), SABIC, Saudi Pharmaceutical Industries & Medical Appliances, the National Center for Privatization, and the GOSI.

Mr. Mohammed Abdulaziz Al-Afaleq

Mr. Al-Afaleq has been a member of the Board since 2004. He holds a Bachelor's degree in Industrial Management from King Fahd University of Petroleum and Minerals and a Master's degree in Business Administration from St. Edward's University, Austin, USA, with extensive experience in management and investment.

Mr. Al-Afaleq is currently the Chairman of the Executive Committee of Al-Hussein & Al-Afaleq Group of Companies, the CEO of a number of Ahdaf Holding subsidiaries, the Chairman of AlNajah Company and a board member of Health Cluster Company in Al Ahsa, in addition to various companies, NGOs and social committees.

Mr. Mohammad Omair Al-Otaibi

Mr. Al-Otaibi has been a member of the Board since 2016, representing the Public Investment Fund. He holds a Master's degree in Business Administration from Western Michigan University, Advanced Management Program from Harvard University, Executive Management Program from University of Michigan, USA, and Strategic Management in Banking Program from International Development, Ireland, with more than 30 years of experience in the transportation and banking sectors.

Mr. Al-Otaibi is currently a member of the board of various companies, including Al-Yamamah Steel Industries Co. and the Saudi Re for Cooperative Reinsurance Co.

Mr. Nader Ibrahim Al-Wehibi

Mr. Al-Wehibi has been a member of the Board since 2011, representing the GOSI. He holds a Bachelor's degree with honours in Insurance and risk management from Indiana State University, USA, and a Master's degree in Social Protection Policies from Maastricht University, The Netherlands, with extensive experience in corporate planning and development.

Mr. Al-Wehibi is currently the Governor Assistant for Insurance Affairs at the GOSI and a member of the Board of Directors at various companies, including SABIC.

External members of the Board Audit Committee

In addition to the two Board members identified above, the Audit Committee also has three external members named below:

Dr. Abdul Raouf Sulaiman Banaja

Dr. Banaja has been a member of the Audit Committee of Riyad Bank since 2016. He holds a PhD degree and a Master's degree in Economics from University of California, USA, and a Bachelor's degree in Mathematics and Physics from University of Riyadh, with more than 30 years of extensive experience in financial and administrative consultations in corporate and banking sectors.

Dr. Banaja is currently the Chairman of the Board of Directors of the Built to Suite Real Estate Fund Co., SEDCO Capital Flexi Saudi Equities Fund, SEDCO Capital REIT, SEDCO Capital Real Estate Fund 1 and SEDCO Capital Real Estate Fund 2. He is a member of the Audit Committee of Savola Group, Panda Retail Company, Herfy Food Services Co., and Kinan International Real Estate Development Co. He is also an independent financial and administrative consultant.

Mr. Abdulaziz Abdullah Al-Duailej

Mr. Al-Duailej has been a member of the Audit Committee of Riyad Bank since 2016. He holds a Bachelor's degree in Industrial Management from King Fahd University of Petroleum and Minerals, with more than 29 years of extensive experience in corporate sector.

Mr. Al-Duailej is currently the Chairman of the Board of Directors of BINLADIN Group Global Holding Co., the CEO of the Advanced Electronics Co., and a member of the Board of Directors of various companies including RAFAL Real Estate Development Company and Taiba Holding Co.

Mr. Tareq Abdullah Al-Qaraawy

Mr. Al-Qaraawy has been a member of the Audit committee of Riyad Bank since 2019. He holds a Master's degree in Accounting from George Washington University, USA, and a Bachelor's degree in Accounting from King Saud University with more than 23 years of extensive experience in the banking sector.

Mr. Al-Qaraawy is currently the Vice President, Compliance & Quality Assurance of Tatweer Buildings Co., member of the Audit Committee of Savola Foods, and a member of Board of Directors of Digital Innovation for Information Technology Co. and Osool & Bakheet Investment Company's Funds.

External members of the Nominations and Compensations Committee

In addition to the three Board members identified above, the Nominations and Compensations Committee also has the two external members named below:

Eng. Ahmad Mohammed Al-Faleh

Mr. Al-Faleh has been a member of the Nominations and Compensations Committee of Riyad Bank since 2019. He holds a Bachelor's degree in Civil Engineering from King Fahad University of Petroleum & Minerals, with more than 25 years in corporate and construction sectors.

Mr. Al-Faleh is currently the Chairman of the Nominations and Compensations Committee for Herfy Food Services Co., and an independent technical, contractual and arbitration consultant. He is a member of the board of directors of various companies including Herfy Food Services Co., Technical United Works Company, Mosa Bin Abdulaziz Almosa and Sons Co., and Leading Agent Trading Co.

Eng. Khalid Saleh Al-Turairi

Mr. Al-Turairi has been a member of the Nominations and Compensations Committee of Riyad Bank since 2019. He holds a Bachelor's degree in Computer Sciences and Engineering from King Fahad University of Petroleum & Minerals, with more than 32 years of extensive experience in corporate sector. He is currently the General Manager for Global Special Projects within SABIC's corporate human resources department.

Committees of the Board

There are currently five Board committees, as described below:

Executive Committee

The Executive Committee deals with matters referred to it by the Board or its chairman within the powers determined for it by the Board. This committee comprises five directors, namely: Talal Ibrahim Al-Qudaibi (Chairman), Abdul-Rahman Amin Jawa, Mohammed Abdulaziz Al-Afaleq, Mutaz Kusai Al-Azzawi and Nader Ibrahim Al-Wehibi. The committee held eight meetings in 2018 and 10 meetings in 2019.

Audit Committee

The Audit Committee helps the Board meet its responsibility to monitor the Group's financial reporting and internal control systems, control the work of the external and internal auditors, review the interim and annual financial statements, review the accounting policy in force and review compliance with regulations. The internal audit and risk management groups assess and report on the effectiveness of internal control structures across the Group and this information is included in internal audit department reports, reflecting a risk-based approach. Risk assessment of business units determines the timeframe for audits during the development of the annual audit plan. While the Audit Committee adopts the audit plan, it also receives all audit reports and reviews quarterly updates relating to the implementation of the audits, notes issues resulting therefrom and monitors corrective actions taken in response. The Audit Committee comprises two directors, namely: Jamal Abdul-Karim Al-Rammah (Chairman) and Mohammad Omair Al-Otaibi and three external non-Board members, namely: Abdul Raouf Sulaiman Banaja, Abdulaziz Abdullah Al-Duailej and Tareq Abdullah Al-Qaraawy. The committee held five meetings in 2018 and eight meetings in 2019.

Risk Management Committee

This committee helps the Board oversee the Group-wide risk management framework, by following up on various risk management operations, including those relating to credit and information security. It ensures that the established internal control framework is in line with the strategy and objectives of risk management. The committee also reviews the Bank's approved risk levels, prepares recommendations to the Board on the suitability of these risk levels and monitors compliance with these risk levels. The committee comprises three directors, namely: Mohammed Abdulaziz Al-Afaleq (Chairman), Jamal Abdul-Karim Al-Rammah and Mohammad Omair Al-Otaibi. The committee held five meetings in 2018 and four meetings in 2019.

Nominations and Compensations Committee

This committee is responsible for the development, approval and application of the Bank's compensation system on behalf of the Board. The committee reviews and assesses the Bank's compensation policy to ensure its suitability and effectiveness, evaluates the Bank's compensation structure and regularly makes recommendations to the Board in relation to salary levels, compensation and benefits for the Bank's senior executives. The committee also oversees all recommendations and nominations to the Board in accordance with approved policies and standards, ensures regulatory compliance with Board membership rules established by the CMA and applicable law and regulations. The committee comprises three independent directors, namely: Mutaz Kusai Al-Azzawi (Chairman), Talal Ibrahim Al-Qudaibi and Nader Ibrahim Al-Wehibi, and two external non-Board members, namely: Ahmad Mohammed Al-Faleh and Khalid Saleh Al-Turairi. The committee held seven meetings in 2018 and six meetings in 2019.

Strategic Planning Group

The Strategic Planning Group is responsible for the preparation of the Bank's strategy. It also monitors and evaluates all actions taken to accomplish the Bank's strategic objectives. The Strategic Planning Group regularly reviews all major projects initiated by the Bank and benchmarks the Bank's financial and operational performance against its strategic objectives. The Strategic Planning Group comprises five directors, namely: Abdullah Mohammed Al-Issa (Chairman), Ibrahim Hassan Sharbatly, Talal Ibrahim Al-Qudaibi, Abdul-Rahman Amin Jawa and Mohammed Talal Al-Nahas. The Strategic Planning Group held one meeting in each of 2018 and 2019.

Senior management

The current members of the Bank's senior management team are:

Name and position	Brief CV
Tareq A Al-Sadhan *Chief Executive Officer ("**CEO**")*	Tareq has been Chief Executive Officer since 2019. He was appointed Senior Executive Vice President, CFO in 2018 when he joined the Bank. Before joining the Bank, Tareq held various leadership positions in private and government sector organisations, including Chief Executive Officer of KPMG Fozan and Sadhan from 1997 to 2015, Deputy Governor for Banking at SAMA from 2015 to 2016, Acting Manager at the General Authority for Zakat and Tax in 2016/7 and Adviser for The Saudi Fund for Development in 2017. Tareq holds a Master's degree in Business Management from Ecole Nationale des Ponts et Chaussés, France.
Abdullah A Al-Oraini *Executive Vice President, Chief Financial Officer ("**CFO**")*	Abdullah joined Riyad Bank as its Chief Financial Officer in 2019. His 16+ years of experience stem from diversified work engagements in local and international banking sectors. Prior to joining Riyad Bank, Abdullah held leadership positions at various banks, including Chief Financial Officer of AlAwwal Bank, Deputy Chief Financial Officer of SABB, and Head of Capital and Liquidity Management at NCB.

Abdullah holds a Master's degree in Management Sciences from the University of Waterloo in Canada.

Mohammed A Alyahya

*Senior Executive Vice President, Chief Operating Officer ("**COO**")*

Mohammed was appointed Senior Executive Vice President, Chief Operating Officer in 2018. He has over 27 years of experience in the banking industry. He started his career with SAMA before moving to Riyad Bank.

Mohammed holds a Bachelor's Degree in Computer Science from Eastern Michigan University.

Fahad M Al-Semari

Senior Executive Vice President, Strategy & Transformation

Fahad was appointed Senior Executive Vice President Strategy & Transformation of Riyad Bank in 2019. He has over 30 years of extensive experience in strategy, business development, executive management, organizational restructuring, and entrepreneurship - primarily in the banking sector.

Prior to joining Riyad Bank, Fahad held senior positions at various banks, including Vice President of Strategy and Business Excellence and General Manager of Retail Banking Group at Alinma Bank.

Fahad holds an MBA from the American University in USA.

Riyadh O Al-Zahrani

Executive Vice President, Retail Banking

Riyadh has been Executive Vice President, Retail Banking since 2016. He was also Executive Vice President of Business Support between 2014 and 2016. He started his career in 1993 with the Bank and has held a number of different roles in the Bank's finance, retail banking, operations and business support functions.

Riyadh holds a Bachelor's degree in Accounting from King Saud University.

Mohammed A Al-Qureshah

Executive Vice President, Finance

Mohammed has been Executive Vice President, Finance since 2014. He started his career in 1998 with the Bank and held various credit and lending roles before assuming his current position.

Mohammed holds a Bachelor's degree in Accounting from King Abdulaziz University.

Abdulaziz Al-Asker

Executive Vice President, Credit

Abdulaziz has been Executive Vice President, Credit since 2014. He has spent almost all of his career with the Bank, starting as a trainee in 1998 and subsequently holding different corporate credit-related roles.

Abdulaziz holds a Bachelor's degree in Administrative Science from King Saud University.

Enji Al-Ghazzawi

Executive Vice President, Operations

Enji has been Executive Vice President, Operations since 2014. She started her career with the Bank in 1988 and has held a range of roles within the operations function since then.

Enji holds a Bachelor's degree in Arts from King Saud University.

Mohammed Abo Al-Naja
Executive Vice President, Corporate Banking

Mohammed has been Executive Vice President, Corporate Banking since 2018, before which he was Head of the Corporate Banking Services Division (from 2014 to 2018).

Having originally joined the Bank as a Senior Account Manager in 1996, Mohammed then worked as a senior manager at Samba Financial Group from 2004 until his return to Riyad bank in 2014.

Mohammed holds a Bachelor's degree in Administrative Science from King Saud University.

Nadir S Al-Koraya
Executive Vice President, Treasury

Nadir has been Executive Vice President, Treasury since 2014. He joined the Bank in 2013 where he worked in the Treasury division as Treasurer.

Prior to joining the Bank, he was with Samba Financial Group from 1993 to 2013.

Nadir holds a Master's degree in Business Administration from California State University, USA.

Mazen M Khalifah
Executive Vice President, Human Capital

Mazen was appointed Executive Vice President, Human Capital in 2018. Mazen has held various positions in the banking sector, including Recruitment and Saudization Project Manager at NCB, Talent Acquisition and People Development Head in Bank Albilad and Learning and Talent Head at SABB. Before joining Riyad Bank, Mazen was General Manager, Human Resources at SAMA.

Mazen holds a Bachelor's degree in Industrial Engineering from King Abdulaziz University.

Khalid W Al-Khudair
Executive Vice President, Communication & Customer Experience

Khalid was appointed Executive Vice President, Communication & Customer Experience in 2018. He is also the founder of Glowork, an employment organization he founded and grew to be a well-established business with over 120 employees, creating jobs for thousands of women across the Kingdom.

He held the role of Chief Operating Officer for Markets at KPMG Saudi Arabia, Kuwait, and Jordan. He was also part of the executive management committee at Deutsche Gulf Finance and launched their brand and sales strategy.

Khalid holds a Bachelor's degree in Commerce from Saint Mary's University in Canada with triple majors in Marketing, HR and Psychology.

Stephan Monghan
Executive Vice President, Digital Banking

Stephan was appointed Executive Vice President, Digital Banking in 2019.

During his 30 years of experience, Stephan served as the Chief Innovation Officer at DBS Bank and the Group

Innovation Head at AIA Group Limited, the largest independent publicly listed pan-Asian life insurance group. He has helped numerous global companies, such as Microsoft, ServiceNow, Oracle, Deutsche Bank, Bupa, Bloomberg, KPMG, NBCUniversal, Mercedes, and China Minsheng Bank in their innovation journeys. Moreover, he has filed 6 patents, including DBS Bank's first patents and Citibank's first mobile payment patent.

Stephan holds an EMBA from the Helsinki Graduate School of Economics.

Rashed A Al-Othman

Executive Vice President, Business Technology

Rashed was appointed as Executive Vice President Business Technology in 2019, he has held various positions prior to rejoining Riyad Bank. He started his career with Saudi Customs in 1984, then SAMBA in 1994, then Riyad Bank in 1998 as ITG, then Bank Albilad in 2010 as Chief Information Officer, then Arabian Centres in 2016 as Chief Information Officer.

Rashed holds a Bachelor's and Master's degree in Science from Arkansas State University, USA.

Abdullah M Al-Zandan

Executive Vice President, Internal Control and Market Risk

Abdullah has been Executive Vice President, Internal Control and Market Risk since 2019. He started his career with Riyad Bank in 1998 and has held a range of roles within the Risk function since then.

Abdullah holds a Bachelor's degree in English Literature from King Abdulaziz University.

Moataz A Kurdi

Executive Vice President, Support Services

Moataz was appointed Executive Vice President Support Services in 2018.

Prior to joining Riyad Bank, Moataz was Head of Premises Department with Banque Saudi Fransi, Chief Operation Officer of Blom Invest Saudi, Manager Support Services Department of Al-ELM Information Security Company, General Manager, Administration for Bank AlBilad and Director, Engineering & Maintenance at Riyadh Airports Company.

Moataz holds a Bachelor's degree in Science and Architectural Engineering from Bluefield State College, USA.

Hussain A Al-Yami

Executive Vice President, Head of Internal Audit

Hussain was appointed Executive Vice President Head of Internal Audit in 2019.

Prior to joining Riyad Bank Hussain was Chief Internal Auditor at SABB.

Hussain holds a Bachelor's degree in Science from Arkansas State University, USA.

The business address of each member of the Bank's senior management is Riyad Bank Building, Granada Business Park 2414 Ash Shuhada dis, Riyadh 13241-7279, Kingdom of Saudi Arabia. There are no potential conflicts of interest between the duties owed to the Bank by the persons listed above and their private interests or other duties.

Management committees

The Bank has the following management committees responsible for overseeing various day to day business activities, risk management and the operations of the Group in general:

Management committee

The management committee is accountable to the CEO and the Board for the management and day to day running of the Bank. The primary responsibility of the management committee is the implementation of the annual budget and objectives within the 2018 to 2022 strategy framework approved by the Board.

ALCO

The ALCO is an executive level management committee responsible for monitoring the asset and liability management of the Group, monitoring current economic and business conditions and setting strategic and tactical targets for instruments and portfolios that make up the Group's balance sheet risk, within the limits approved by the Board. The ALCO does not have primary responsibility for managing the allocation of retail and corporate credit portfolios which are managed through the credit process, but must assess the impact of these portfolios on the balance sheet from a liquidity perspective. The ALCO is also responsible for ensuring wholesale trading and banking book positions are maintained within the limits approved by the Board, reviewing and approving the Group's funds transfer pricing system, tactical review of wholesale funding and investment activities, and overseeing the regulatory capital allocation and regulatory capital limits management processes.

The ALCO meets once each month and is chaired by the CEO. The other members of the ALCO are the CFO, the other members of the management committee (excluding the Head of Human Resources and the EVP Communications), the EVP Internal Control and Market Risk and the EVP Finance.

One or more representatives of the Bank's internal audit department may attend ALCO meetings as independent observers, as part of their independent monitoring and reporting role to the Audit Committee. They do not participate in the decision making process and are not voting members.

Main credit committee (the "MCC")

The MCC is an executive management committee that is primarily responsible for reviewing and approving the Group's large exposures in accordance with the credit authorities delegated by the Board. The MCC's principal responsibility is to act as the approving authority for credit limits that are higher than the Bank's existing co-signature credit authorities.

The MCC reviews individual exposures, related party exposures and portfolios of exposures of a similar nature or type. The MCC also has an important role in monitoring the performance of loan portfolios and other credit instruments. The MCC makes strategic decisions on pricing credit exposures, maintenance of credit exposures, recovery of non-performing credit exposures and recommendations of write-offs on large credit exposures that cannot reasonably be recovered.

Credit risk policy committee (the "CRPC")

In line with the Board approved credit risk management framework and credit risk strategy statement, the CRPC is an executive committee that oversees the Group's credit risk functions and undertakes the necessary measures to ensure the development and adoption of credit policies that are compliant with applicable regulatory guidelines and best international banking practices.

The main objectives of the CRPC include ensuring that the Group's credit risk management organisation structure is adequate and reflects best international banking practices, reviewing all credit risk-related policies covering new initiatives, credit programs, IFRS 09 Policies and other credit risk-related issues, reviewing the corporate portfolio credit quality and monitoring the performance of corporate analytical models and methodologies.

Retail risk management committee (the "RRMC")

The RRMC is a management committee tasked with oversight responsibilities for ensuring proper implementation of the Board's approved Credit Strategy and Credit Risk Management Framework specifically for credit risk arising from the Bank's retail banking business. The RRMC reviews and approves the 'retail credit risk acceptance criteria' (RAC) and 'business acceptance criteria' (BAC) to ensure that they are compatible with the overall lending and credit strategies and policies approved by the Board as well as associated guidelines issued by the competent authority of the Bank.

Risk management and compliance committee

The RMCC is an executive committee responsible for implementing, reviewing and monitoring compliance with the policies and procedures covering risk management and regulatory compliance throughout the Bank. The RMCC, as needed or as requested, will provide guidance to other management committees which are responsible for governance of other risk types that fall under their responsibilities and authorities.

The RMCC is chaired by the CRO. The other members of the RMCC are the other members of the management committee and the Senior Compliance Manager. The composition and charter of the RMCC is approved by the CEO and documents members' responsibilities and the committee's core objectives.

One or more representatives of internal audit also attend all RMCC meetings to report on internal audit and internal control matters to management and also act as an independent observer to discharge internal audit's responsibility for independent monitoring and reporting to the Board's Audit Committee.

Investment committee (the "IC")

The Group maintains a substantial domestic and international investment portfolio to provide an alternative income source for the Group through investment in countercyclical investments which are expected to perform well during periods when other sources of the Group's income may not perform as well. The IC is responsible for establishing investment guidelines and mandates (including limits and parameters) for the investment managers who manage the portfolio, and for monitoring and reviewing the risks and performance of the investment portfolio. The IC is chaired by the CEO of the Bank with CRO being the Vice Chairman.

People Committee

The People Committee is chaired by the CEO and comprises the management committee members of the Bank's main business functions, The People Committee considers any major employee-related issues that are either within the delegation of the executive management team or such matters as will subsequently be presented to the Bank's Board committees.

Shari'ah Committee

The Bank's internal Shari'ah Committee consists of three Saudi Arabian scholars who specialise in Islamic jurisprudence and economics. The committee is responsible for reviewing and supervising all proposed Islamic banking policies and business practices, to ensure that the Bank complies with all relevant *Shari'ah* principles. The committee also provides advice and explanations relating to *Shari'ah* matters and fatwas related to the Group's Islamic products. The Shari'ah Committee provides final authorisation for the Bank to proceed with an Islamic banking product.

Employees

The Bank had 5,135 full time employees as at 31 December 2019 compared to 5,311 at 31 December 2018 and 5,567 as at 31 December 2017. Companies in Saudi Arabia are required by the Ministry of Labour to ensure that a certain percentage of their staff are Saudi nationals. This requirement is known as Saudization. The Bank's Saudization ratio, that is the ratio of Saudi nationals to non-Saudi nationals, was 94 per cent. as at 31 December 2019.

The Bank recently reviewed its remuneration and reward practices to put in place meritocratic systems which both encourage the Bank's employees to perform to the maximum of their capabilities while also providing the Bank with access to external talent.

In addition to a base salary and incentive and longevity-of-employment bonuses, the Bank offers its employees a housing and holiday allowance, as well as in-kind benefits such as medical insurance, life insurance, a savings incentive scheme and voluntary pension plans.

The Bank has a structured approach to the acquisition and development of talent to meet the needs of the business. Critical positions are systematically identified and comprehensive succession plans and individual development plans are aligned to ensuring that a capable and high-performing talent pipeline is maintained.

Development activities are focussed upon the continuous improvement of employees' behavioural as well as technical capability with clarity provided through well-defined career plans leading from entry-level positions through to senior executive roles.

In order to achieve this, the Bank partners with recognised international learning and leadership institutions to provide employees with a clear understanding of best global practice, tailored to the local operating environment.

The Chief Executive Officer sponsors the Bank's 'Employee Value Proposition programme' which seeks to provide employees with the optimum work environment in which to excel in their careers. The positive impact of this initiative has been demonstrated by a marked increase in the Bank's 'health index', as measured by an externally-conducted survey, and over 85 per cent. of the Bank's employees participated in the programme.

Training is an important component of the Bank's strategic aim of attracting and retaining highly qualified and motivated personnel. To that end, the Bank has an extensive training programme for its new and existing employees designed to equip them with the skills and know-how necessary to perform their functions with efficiency and to enhance their internal promotion opportunities. As part of its efforts to build and test its recruitment pool, the Bank also offers training programmes to high school and university graduates. The Bank has its own training centre in Riyadh.

OVERVIEW OF THE KINGDOM OF SAUDI ARABIA

Introduction

Saudi Arabia, situated in the southwestern part of Asia, comprises almost four-fifths of the Arabian Peninsula, an area approximately one-third the size of the continental United States. Saudi Arabia is the largest country in the GCC and the second-largest Arab country. Its geography is dominated by the Arabian Desert and associated semi-deserts and shrubland. Saudi Arabia is bordered in the north and northeast by Jordan and Iraq, in the east by Kuwait, Qatar and the United Arab Emirates, in the southeast by Oman and in the south by Yemen. It is connected to Bahrain by the King Fahd causeway.

The modern Kingdom was declared in 1932 by King Abdul Aziz bin Abdul Rahman Al Saud. The capital of Saudi Arabia is Riyadh. Since the discovery of oil fields in the eastern region along the coast of the Arabian Gulf in 1938, Saudi Arabia has experienced rapid growth and is now the world's second largest producer of oil and natural gas, holding more than 17.8 per cent. of the world's proven oil reserves (source: OPEC Annual Statistical Bulletin 2019).

Government and Legal Framework

Saudi Arabia is a monarchy with a political system rooted in the traditions and culture of Islam. The King is both the head of state and the head of the Government. Its constitution, the Basic Law issued by Royal Decree number A/90 and dated 27/8/1412H (corresponding to 2 March 1992), specifies that the King must be chosen from among the sons of the first King, Abdul Aziz bin Saud, and their male descendants. In 2006, the Allegiance Council was established, comprised of: (a) King Abdul-Aziz bin Saud's surviving sons; (b) one son of each deceased/disabled son of King Abdul-Aziz bin Saud; and (c) one son of the incumbent King and one son of the incumbent Crown Prince, both appointed by the incumbent King, to determine which member of the royal family will be the next King and the next Crown Prince.

The King controls the legislative, executive and judicial bodies and royal orders and royal decrees that together form the basis of Saudi Arabia's legislation. The King is also the Prime Minister and he presides over the Council of Ministers (*Majlis al-Wuzara*), which was established by Royal Decree in 1953 and consists of the first and second deputy Prime Ministers and 21 Ministers with portfolios and six Ministers of State. The King makes appointments to and dismissals from the Council of Ministers. The Council of Ministers is responsible for, among other things, executive and administrative matters such as foreign and domestic policy, defence, finance, health and education. The King and executive officials at the local, provincial and national levels also hold regular meetings, which are open to members of the public (*majalis*) and where members of the public may discuss issues and raise grievances.

Since the founding of the modern Kingdom in 1932, and as per the Basic Law of Governance in Saudi Arabia adopted by Royal Order in 1992, *Shariah* (Islamic law) has been the pillar and source of Saudi Arabia's basic system of government and is the paramount body of law in Saudi Arabia.

The *Shariah* is comprised of a collection of fundamental principles derived from a number of different sources, which include the *Holy Qu'ran* and the *Sunnah* (the witnessed sayings and actions of the Prophet Mohammed). In addition to the *Shariah*, Saudi law is also derived from enacted legislation that may not conflict with *Shariah* principles. Legislation is enacted in various forms, the most common of which are Royal Orders, Royal Decrees, Council of Ministers resolutions, High Orders, ministerial resolutions and ministerial circulars having the force of law. All such laws and regulations are ultimately subject to, and may not conflict with, the *Shariah* and each Saudi court or other adjudicatory authority is required to interpret such legislation accordingly.

In 1992, in conjunction with the promulgation of the Basic Law of Governance in Saudi Arabia, the Law of Provinces and the Law of *Majlis Al-Shura* (the "**Consultative Council**") were introduced. The Consultative Council has the authority to draft, review and debate legislation, which is then presented to the Council of Ministers for approval. Legislation approved by the Council of Ministers only acquires the force of law once the King has issued his approval by way of a Royal Decree. However, the Council of Ministers or the relevant government ministry or authority may be delegated the power to enact further "executive regulations" that govern the implementation of such legislation.

Saudi Arabia's judicial system is composed of *Shariah* courts of general jurisdiction, a system of administrative courts known as the Board of Grievances and various adjudicatory or semi-judicial committees with special jurisdiction over such matters as banking transactions, securities regulation, intellectual property, labour disputes, electricity industry disputes and medical malpractice. The Board of Grievances also holds jurisdiction over general commercial disputes as a temporary situation and until the commercial court is established. Saudi judges enjoy wide discretionary power in deciding disputes and some areas of law, including civil and commercial law, remain uncodified. Saudi judges are not bound by judicial precedent. Though efforts have been made to record and publish selected samples of judicial decisions, the vast majority of court decisions in Saudi Arabia are not published or available to the public.

In 2007, judicial reforms were announced, including the establishment of courts of appeal and two supreme courts, as well as the merger of most special adjudicatory committees into the general *Shariah* courts, though exceptions were made for certain adjudicatory committees. The main committees which were exempted from these reforms are: (a) the Committee for the Resolution of Banking Disputes, which operates under the aegis of SAMA; (b) the Committee for the Enforcement of the Banking Control Law, which also operates under the aegis of SAMA; (c) the Committee for the Resolution of Securities Disputes, which operates under the aegis of the CMA; and (d) the Committee for Resolution of Custom Duties Disputes. The 2007 reforms also included the transfer of jurisdiction over commercial disputes from the Board of Grievances to the general *Shariah* courts. However, with the exception of the establishment of the courts of appeal and the two supreme courts, most of these reforms are yet to be put into practice.

Population and Employment

The population of Saudi Arabia in 2018, based on mid-year 2018 estimates carried out by the GASTAT (for its most recent annual statistical yearbook), is approximately 33.4 million, which represents growth of approximately 2.5 per cent. from the previous year's estimate of 32.6 million. Of this, Saudi nationals constituted 62.3 per cent. (approximately 20.8 million) and non-Saudi nationals constituted 37.7 per cent. (approximately 12.6 million) (source: the GASTAT).

Figures issued by the GASTAT indicate that, in the third quarter of 2019, the total labour force in Saudi Arabia was approximately 12.9 million people (3.1 million of whom were Saudi nationals) (source: the GASTAT). Overall unemployment in Saudi Arabia remained at 6.0 per cent. in 2018 and 2017, a slight increase as compared to the unemployment rate in 2016 of 5.6 per cent. (source: IMF World Economic Outlook Database October 2019).

Economy

Despite recent growth in other economic sectors, Saudi Arabia's economy is still dependent on oil revenues and the price of oil and gas on international markets. Traditionally, the oil industry has been the basis of development of Saudi Arabia's economy, which means that economic planning and development has been, and will continue to be, impacted by fluctuations in oil prices. Since mid-2014, there has been a sharp decline in international crude oil prices and this, coupled with challenging economic conditions generally, has had a significant adverse effect on the economy of Saudi Arabia and the other GCC countries that are dependent on oil revenues, resulting in increased budget deficits across the GCC economies (including the Kingdom). In the 2020 Budget of Saudi Arabia, total revenues are expected to reach SAR 833 billion in 2020, with non-oil revenues expected to reach SAR 320 billion and representing a 1.58 per cent. increase on actual non-oil revenues compared to 2019.

The instability in oil prices is demonstrated by the average OPEC Reference Basket price per barrel which has fluctuated considerably in the past few years, having decreased from a year-end figure in 2014 of U.S.$96.29 per barrel to a year-end figure in 2017 of U.S.$52.43 per barrel before increasing to a year-end figure in 2018 of U.S.$69.76 per barrel (source: OPEC). Oil prices are expected to remain volatile, and if the prevailing level of oil prices continues, this has the potential to adversely affect the economy of Saudi Arabia and other GCC countries in the future.

The table below shows Saudi Arabia's daily crude oil production for 2018, 2017 and 2016 (source: OPEC Annual Statistical Bulletin 2019):

	2018	**2017**	**2016**
		(million barrels)	
Total crude oil production	10.3	10.0	10.5

Notwithstanding the challenging economic conditions, according to data from the IMF the Saudi Arabian economy is still estimated to have grown during 2019 as a result of ongoing government expenditure on development projects and continued structural and regulatory reforms aimed at achieving sustainable economic growth through diversifying the production base and increasing the contribution of the non-oil sector. Overall real GDP is estimated to have decreased by 0.167 per cent. in 2019 compared to an increase of 2.434 per cent. in 2018. Preliminary data from the GASTAT indicates that the non-oil sector experienced a real growth rate of 2.1 per cent. in 2018 compared to a real growth rate of 1.3 per cent. in 2017.

The table below shows Saudi Arabia's nominal GDP and related growth rates and the GDP at constant 2010 prices and related growth rates for 2019, 2018 and 2017 (source: IMF World Economic Outlook Database October 2019):

	2019	**2018**	**2017**
		(SAR billion)	
Real GDP	2,635[(1)]	2,631	2,569
Percentage change in real GDP growth rate	(0.86)	1.67	4.11

Note:

(1) Preliminary data.

The following table shows the contribution by economic sector to Saudi Arabia's GDP at constant 2010 prices for 2016, 2017 and 2018 (source: GASTAT Statistical Yearbook of 2018):

	2018[1]	2017	2016
		(SAR million)	
Industries and other producers except producers of Government Services			
Agriculture, forestry and fishing	60,713	60,422	60,122
Mining and quarrying	1,042,758	1,010,104	1,046,785
(a) Crude petroleum and natural gas	*1,032,549*	*1,000,160*	*1,037,257*
(i) Other mining and quarrying activities	*10,209*	*9,944*	*9,527*
Manufacturing	319,550	311,982	307,987
(a) Petroleum refining	*95,539*	*96,533*	*94,610*
(ii) Other manufacturing	*224,011*	*215,449*	*213,377*
Electricity, gas and water	34,611	34,132	33,688
Construction	113,667	117,259	121,203
Wholesale and retail trade, restaurants and hotels	231,170	229,378	228,074
Transport, storage and information and communication	154,349	151,789	148,467
Finance, insurance, real estate and business services	257,182	249,794	237,143
(a) Real estate activities	*137,503*	*134,487*	*127,227*
(iii) Other	*119,680*	*115,307*	*109,917*
Community, social and personal services	52,057	50,323	49,648
Less imputed bank service charges	(21,217)	(20,963)	(20,709)
Government services	366,135	355,600	354,519
GDP (excluding import duties)	2,610,975	2,549,820	2,566,928
Import duties	14,487	18,749	20,830
GDP	2,625,462	2,568,569	2,587,758

Note:

(1) Preliminary data.

Domestic stock market

The CMA is the sole regulator and supervisor of Saudi Arabia's capital markets and issue rules and regulations which are aimed at protecting investors and ensuring fairness and efficiency in the market.

The level of the general share price index of the Saudi Stock Exchange ("**Tadawul**") increased from 7,826.73 at 31 December 2018 to 8,389.23 at 31 December 2019 (source: Tadawul website). In December 2019, Saudi

Aramco sold 3 billion shares at SAR 32 each and listed these on Tadawul through an initial public offering which made Saudi Aramco the most valuable publicly listed company in the world.

Credit rating

The current difficulties in the macroeconomic climate, particularly the concerns around the prevailing level of global crude oil prices and geopolitical tensions in the Middle East region, have prompted international rating agencies to take rating actions on the governments of a number of GCC states, including Saudi Arabia. On 17 February 2016, Standard & Poor's lowered Saudi Arabia's long-term and short-term foreign and local-currency sovereign credit ratings from A+/A-1 to A-/A-2 with the outlook changed from negative to stable. Moody's concluded its rating review on the GCC sovereigns on 14 May 2016, resulting in Saudi Arabia's sovereign long-term issuer rating being downgraded from Aa3 to A1 with a stable outlook. Moody's most recently affirmed Saudi Arabia's ratings on 13 April 2018. On 30 September 2019, following an attack on Saudi Aramco's refining facilities in the Kingdom, Fitch downgraded Saudi Arabia's long-term foreign and local-currency issuer default ratings from to A with a stable outlook citing geopolitical tensions and the risk of further attacks on Saudi Arabia, which could result in economic damage.

The following tables summarises Saudi Arabia's current credit ratings assigned to by the three main credit rating agencies:

	Moody's	Fitch	Standard and Poor's
Long-term foreign currency	A1	A	A-/A-2
Outlook	Stable	Stable	Stable

Foreign investment

The Saudi Arabian Foreign Investment Law requires all foreign investment in Saudi Arabia to be licensed by the Saudi Arabian General Investment Authority ("**SAGIA**"). Except for those areas expressly excluded by a list (referred to as the "**negative list**") issued by the Supreme Economic Council under its authority in accordance with Article 3 of the Saudi Arabian Foreign Investment Law, foreign investment is permitted in all investment activities. The negative list is regularly updated. As part of its effort to attract foreign investment, Saudi Arabia acceded to the World Trade Organisation in December 2005. SAGIA has the jurisdiction to license foreign investment in Saudi Arabia, in addition to the licensing of particular types of investment which are entrusted to other agencies (e.g. power generation and health care). Minimum investment thresholds for foreign investors may be amended by SAGIA from time to time. Currently, the minimum investment thresholds for obtaining foreign investment licences for the four main categories are set as follows: (a) SAR 25 million for agricultural projects; (b) SAR 26.6 million for mixed ownership commercial projects; (c) 30 million for real estate development projects; and (d) SAR 500,000 for general services (subject to each service's additional requirements). To further promote foreign investment in the Kingdom, in June 2016, the Kingdom announced new licensing regulations to permit foreign investors to own 100 per cent. of companies operating in the wholesale and retail trading sectors in the Kingdom. The minimum share capital for a foreign investor to establish a local company in the wholesale and retail trading sectors is SAR 30 million and the minimum investment threshold is SAR 200 million for the next five years of the issuance of SAGIA licence.

SAGIA, in co-ordination with a number of Saudi ministries, launched the National Investment Plan (the "**NIP**") to consolidate identified investment opportunities in the Kingdom under one programme. The NIP aims to promote foreign and local investment and has to date identified 90 projects in the healthcare, transportation and industrial parts and equipment sectors. Promoting foreign investment is generally a key initiative and one of the three pillars under the Saudi Vision 2030 (see "—*Saudi Vision 2030*").

Saudi Vision 2030

On 25 April 2016, the government of Saudi Arabia approved a new national reform plan, the "Saudi Vision 2030", which sets out a methodology and roadmap for economic and developmental action in Saudi Arabia aimed at reducing the country's economic and fiscal dependency on oil, boosting the private sector's role in the economy, lowering unemployment and raising non-oil revenue. The Saudi Vision 2030 is centred on three pillars: (a) to remain at the heart of the Arab world; (b) to become a global investment powerhouse thereby stimulating the economy and diversifying revenues; and (c) to use its strategic location connecting three continents (Asia, Europe and Africa) to become a global hub for trade.

The vision includes regulatory, budget and policy changes that will be implemented over the next 15 years. Implementation over the first five years will be guided by the National Transformation Program 2020 which is designed to build the institutional capacity and capabilities needed to achieve the vision. The Council of Ministers has entrusted the Council of Economic and Development Affairs ("**CEDA**") with the task of establishing the mechanisms and measures necessary to achieve the Saudi Vision 2030 and CEDA has developed a comprehensive governance model to co-ordinate efforts among stakeholders and to oversee progress.

The key initiatives and goals under the "Saudi Vision 2030" include the following (source: Vision 2030 website):

- to implement a government restructuring programme and to strengthen public sector governance;
- to carry out a comprehensive regulatory review programme in the Kingdom;
- to restructure the Public Investment Fund ("**PIF**") and increase the size of its assets;
- to implement a strategic transformation programme in respect of Saudi Aramco to diversify its activities and transform Saudi Aramco from an oil producing company into a global industrial conglomerate;
- the privatisation of certain economic sectors such as health, airports, post and desalination;
- creating and promoting foreign investment opportunities in the Kingdom;
- encouraging SMEs and encouraging larger companies to list their shares (including on secondary markets);
- to increase non-oil government revenues to SAR 1,000 billion in 2030 from an estimated SAR 163 billion in 2016;
- to increase private sector contribution to GDP to 65 per cent. in 2030 from an estimated 40 per cent. in 2016;
- to increase non-oil exports as a percentage of GDP to 50 per cent. in 2030 from an estimated 16 per cent. in 2016; and
- to lower the unemployment rate of Saudi nationals to 7 per cent. in 2030 from an estimated 11.6 per cent. in 2016 and to increase female labour force participation to 30 per cent. in 2030 from an estimated 22 per cent. in 2016.

THE KINGDOM OF SAUDI ARABIA BANKING SECTOR AND REGULATIONS

General

As at 15 January 2020, there were 29 commercial banks operating in Saudi Arabia, of which 13 were incorporated in Saudi Arabia. Of the remaining 16 operating banks, six were branches of banks based in countries of the GCC other than Saudi Arabia (namely Gulf International Bank ("**GIB**"), Emirates NBD, National Bank of Bahrain, National Bank of Kuwait, First Abu Dhabi Bank, Bank Muscat and Qatar National Bank) and nine were international banks (namely JPMorgan Chase, BNP Paribas, Deutsche Bank, T.C. Ziraat Bankası A.Ş., National Bank of Pakistan, Industrial and Commercial Bank of China, First Abu Dhabi Bank and Mitsubishi UFJ Financial Group). All of the 13 Saudi operating banks are publicly-listed joint stock companies and their shares are traded on the Tadawul.

All 13 Saudi banks provide a broad range of retail and wholesale banking products and services. Al Rajhi Bank, Bank Al-Bilad, Bank Al Jazira and Al Inma Bank provide only *Shariah* compliant products and services. The remaining eight banks provide a combination of *Shariah* compliant and conventional banking products and services.

In addition to the commercial banks, there are a number of state-run credit institutions, including the Saudi Industrial Development Fund, the Real Estate Development Fund, the Saudi Arabian Agricultural Bank, the Saudi Credit and Savings Bank and The Saudi Development Fund, which provide funds for targeted sectors. In addition, the PIF is the investment arm of the Government while the Islamic Development Bank is a multilateral development financing institution. SAMA does not regulate any of these entities.

As at 30 November 2019, there were 2,069 bank branches and 18,839 ATMs and 431,175 points of sale terminals in Saudi Arabia (source: SAMA November 2019 Monthly Statistics).

Key highlights of the trends and outlook for the Saudi banking industry are as follows:

- modest economic growth benefiting the Saudi banks' lending activity in an environment of rising interest rate margins;
- liquidity and funding expected to remain solid against a backdrop of limited growth;
- a move towards digitisation with the rising sophistication and education of an increasingly young Saudi population, simultaneously driving demand for retail banking services in Saudi Arabia;
- fee-based services and products for retail markets are proliferating, the focus being turned to non-funded business volumes and cross-selling opportunities; and
- Islamic banking continues to be an area of growth.

History

Prior to 1976, a number of wholly foreign-owned banks operated branches and subsidiaries in Saudi Arabia, including Citibank, whose operations were taken over by the Bank in 1980.

In 1976, the Government issued a directive requiring all banks operating within its borders to convert to entities incorporated locally in which at least 60 per cent. of the shares are owned by Saudi nationals.

In 2000, the first branch of a foreign bank authorised in over 40 years was opened in Saudi Arabia, in connection with changes in GCC countries' policies concerning cross-border banking. The new entrant was GIB, an off-shore bank based in Bahrain and owned by the six GCC states. GIB had been active in Saudi Arabia for many years, but having a branch allowed it to compete at close hand. More recently, SAMA has granted several banking licences and these new banks are expected to intensify competition.

There are also non-bank competitors in brokerage and personal finance. The Saudi banking sector has seen an accelerating competitive convergence focused on Islamic banking, private and affluent segments and brokerage and investment banking, as well as significant investment in new distribution, marketing and technology.

Following the licence granted to GIB in 2000, SAMA granted licences to operate branches in Saudi Arabia to Emirates NBD, National Bank of Bahrain, National Bank of Kuwait, Muscat Bank, JPMorgan Chase, BNP Paribas, Deutsche Bank, National Bank of Pakistan, State Bank of India, T.C. Ziraat Bankası A.S¸ Industrial and Commercial Bank of China and, most recently, Qatar National Bank (which commenced operations in Saudi Arabia in May 2017 and First Abu Dhabi Bank and Mitsubishi UFJ Financial Group, which each commenced operations in November 2018). The Government also developed the capital markets sector in Saudi Arabia with the enactment of the Capital Market Law (issued by Royal Decree No. M/30 dated 2/6/1424H (corresponding to 31/7/2003). The CMA was also established to regulate the capital markets in Saudi Arabia. In line with the Government's overall desire to develop and boost the capital markets in Saudi Arabia, the CMA has encouraged the participation of foreign investment banks. According to its website, the CMA has licensed at least 105 entities to conduct various types of securities business in Saudi Arabia, although a number of those licensed entities have not yet commenced business.

Corporate Banking Segment

The majority of banking assets in Saudi Arabia are loans to businesses and, as at 31 December 2018, banks' claims on the private sector constituted approximately 60 per cent. of total commercial banks' assets (source: SAMA, November 2019 Monthly Statistics). This reflects historic strong economic growth and investment within Saudi Arabia in various sectors such as electricity, water and health services, building and construction, commerce and government projects in oil and gas, infrastructure and education. Government stimulus to the Saudi economy has also contributed to the high level of corporate assets.

Though commercial mortgages are a lucrative business in developed countries, Saudi banks have not been very active in this product due to legal and operational hurdles. However, financing is provided for real estate development purposes, which does not fall under commercial mortgages.

SIMAH provides consumer credit information and is considering introducing commercial credit information services for corporates. This will help the exchange of credit-related information among member banks, giving a broad coverage of the risk profiles of Saudi customers.

Investment banking activities have been growing rapidly in Saudi Arabia. Project finance has also been a strong growth area with several projects being financed in recent years. While the prevailing level of oil prices pose challenges to the Saudi economy, leading to both Government spending growth and weaker GDP growth, project finance is nonetheless expected to continue to be a strong area for banking business as a result of planned investments in infrastructure and industry in line with the reform and stabilisation programmes being implemented to reduce the economy's dependency on oil-related revenues.

Personal Banking Segment

Consumer lending increased by 1.5 per cent. from SAR 318 billion at the end of 2017 to SAR 323 billion at the end of 2018 and was SAR 324 billion at 30 September 2019 (source: SAMA, November 2019 Monthly Statistics). Historically, growth in consumer finance has been driven by several factors, including:

- economic growth coupled with favourable consumer demographics;

- growth of the credit card market;
- product innovation and a rapidly expanding range of product and service offerings; and
- the creation of SIMAH.

The value of the credit card loans market was SAR 18.3 billion as at 30 September 2019 (source: SAMA, November 2019 Monthly Statistics), up from SAR 15.3 billion at 31 December 2018 and SAR 12.1 billion at 31 December 2017. This credit card growth is expected to continue as a result of the increasing use of electronic forms of payment within Saudi Arabia. The majority of personal lending is tied to electronic salary assignment, thereby enhancing asset quality and effectively reducing the risk associated with personal lending which, coupled with higher margins than in corporate lending, has made personal finance a particularly attractive segment for banks in Saudi Arabia.

SIMAH offers consumer credit information services to respective members in Saudi Arabia. SIMAH was established by the commercial banks operating in Saudi Arabia within the context of the current banking act and regulations issued by SAMA. SIMAH aggregates credit-related information among participating members to provide credit providers with a more complete risk profile of customers.

Islamic Finance

Islamic finance has been a main growth area for the Saudi financial economy and has been one of the most significant developments in financial markets in recent years. Saudi Arabia is one of the largest and the fastest growing markets for Islamic banking in the world. According to Ernst & Young's World Islamic Banking Competitiveness Report 2016, Islamic banking assets in Saudi Arabia comprised approximately 51 per cent. of Saudi Arabia's total banking assets in 2014, increasing from approximately 38 per cent. in 2010 and representing year-on-year growth in Islamic banking assets in Saudi Arabia of approximately 20 per cent. between 2011 and 2014 (compared to year-on-year growth in conventional banking assets in Saudi Arabia of approximately 4 per cent. over the same period).

The Islamic banking industry in Saudi Arabia encompasses a blend of institutions of different categories ranging from fully dedicated Islamic banks to conventional banks offering Islamic banking services through separate divisions or windows. Many banks in Saudi Arabia have *Shariah* boards opining as to the application of *Shariah* principles in financing structures and approving all Islamic products.

Currently, a wide range of *Shariah* compliant products are available in the market for the corporate and personal banking segments covering credit, deposit, investment and treasury offerings.

The personal banking segment has experienced the strongest demand for Islamic banking products and services with consumer Islamic assets forming the bulk of total consumer assets. In addition to deposit products, Islamic financing solutions include personal finance, home finance and Islamic credit cards. With growing business activity in the real estate sector and a growing population, *Shariah* compliant home financing is expected to be a major driver of Islamic personal banking asset growth in the future.

Credit demand from the corporate banking segment has experienced growth following the launch of infrastructure projects and increasing interest in manufacturing. Main product offerings include ijara and murabaha and are offered as bilateral facilities, as well as through syndications. To cater to this market segment, Islamic banks have also introduced innovative *Shariah* compliant solutions.

The Islamic banking segment is expected to continue to grow with credit demand anticipated from corporate and consumer segments (as for the conventional banking market, growth in Islamic banking may evolve at a slower pace in light of the current economic challenges caused by a prolonged period of low oil prices). It is also expected to be accompanied by a simultaneous increase in innovative Islamic product offerings and growing awareness and demand within the general public for sophisticated *Shariah* compliant solutions.

Treasury

The treasury activities of Saudi Arabian banks have increased over the past few years as the financial markets have become more sophisticated with the increased use of financial instruments. Some Saudi banks are able to offer their customers structured products that make use of derivatives and that are also *Shariah* compliant.

Investment Banking and Asset Management

Investment banking and mutual fund services have grown in past years. Brokerage services especially flourished during the 2003 to 2006 period, when Tadawul peaked at all-time highs. The level of the Tadawul All Share Index was 47,226 on 31 December 2017, 7,826.73 at 31 December 2018 and 8,389.23 at 31 December 2019.

In line with the Government's drive to develop an efficient capital market platform, a number of banks, including the Bank, embarked on providing corporate finance and equity and debt capital markets advisory services to companies. Since 2003, a number of initial public offerings have been effected, several of which were Government initiatives.

Furthermore, the CMA has issued licences to several financial institutions to engage as principal or as an agent in equity lead arrangements, equity management arrangements and/or advisory and securities custody services. Following this, a number of Saudi banks (including the Bank) established separate subsidiaries to undertake these activities.

Foreign financial institutions have been permitted to buy and sell shares in companies listed on Tadawul since 2015 in accordance with the Rules for Qualified Financial Institutions Investment in Listed Securities.

Saudi Arabian Monetary Authority

Overview and Functions

SAMA is the regulator and supervisor of licensed financial institutions, including banks, finance companies, leasing and real estate companies, insurance companies, money exchange companies and credit information companies in Saudi Arabia.

SAMA was established pursuant to Royal Decree No. 30/4/1/1046 dated 25/07/1371H (corresponding to 20/04/1952). SAMA's principal functions include:

- issuing the national currency;
- dealing with the banking affairs of the Government;
- supervising commercial banks and exchange dealers;
- managing Saudi Arabia's foreign exchange reserves;
- managing monetary policy for maintaining price and exchange rate stability;
- promoting the growth of the financial system and ensuring its soundness;
- supervising co-operative insurance companies and the self-employment professions relating to the insurance industry;

- supervising finance companies; and
- supervising credit information companies.

Banking Control Law

The Banking Control Law (the "**BCL**") was issued by Royal Decree No. M/5 dated 22/02/1386H (corresponding to 12/06/1966) with the aim of protecting banks, customers' deposits and shareholders and securing adequate liquidity levels. The law prohibits banks from undertaking certain activities that might cause damage to their shareholders and customers. In addition, the law prohibits individuals and companies from using the word "bank" or its synonyms in their names or conducting any banking activities without obtaining a licence from SAMA. The BCL sets out the framework within which banks must operate in Saudi Arabia and is supplemented by circulars, directives and guidelines issued by SAMA from time to time. These circulars and directives are generally not made publicly available outside the banking sector.

Consumer Protection

SAMA has been a strong advocate of consumer protection since obtaining its charter in 1952 and the issuance of the BCL in 1966. Consequently, SAMA has played an important role in ensuring that the financial institutions under its supervision deal with consumers fairly and honestly.

As Saudi Arabia's financial sector evolves and grows, SAMA continues to review these developments and decides on appropriate legislative, regulatory and organisational changes to provide the level of consumer protection expected from a country that is a member of the world's main economic and financial organisations. SAMA's current objective is to ensure that all consumers who have dealings with licensed financial institutions in Saudi Arabia receive the expected level of consumer protection, including fair treatment, honesty and ease of access to financial products and services.

SAMA has set out the conduct expected from such financial institutions through various regulations, policies and issued instructions, including the "Banking Consumer Protection Principles" (the "**Principles**") issued in June 2013.

The Principles set out key guidelines to enable licensed banking institutions to deliver the required level of fair treatment, honesty and financial inclusiveness thereby meeting SAMA's strategic objective for financial consumer protection in Saudi Arabia. The Principles apply to the activities of banks operating by way of a licence, which are under the supervision of SAMA and which are dealing with persons who are, or may become, consumers. They also apply to the activities of any third party engaged by such banks to undertake any outsourced activities. The Principles are binding on all such banks, complementary to the instructions and internal regulations issued by any such bank and applicable to all transactions that are made with individual consumers.

The Principles were issued pursuant to powers granted to SAMA under the following legislation and regulations:

- Charter of the Saudi Arabian Monetary Authority – Article (3d), issued by Royal Decree No. 23 dated 23/05/1377H (corresponding to 15/12/1957);
- Banking Control Law issued by Royal Decree No. M/5. dated 22/02/1386H (corresponding to 12/06/1966); and
- Ministerial Decree No.3/2149. dated 14/10/1406H (corresponding to 22/06/1986).

The "G20 High-Level Principles on Financial Consumer Protection" provide the background for the "General Principles for Financial Consumer protection" which are now being adopted as part of the Principles.

In July 2014, SAMA published an updated Regulations for Consumer Finance (the "**New Regulations**"). The New Regulations came into effect from 11 Dhul Qada 1435H (corresponding to 16 September 2014) and contain a number of provisions relating to the protection of consumer rights, including:

- allowing customers to partially or fully repay their remaining finance facilities at any time during the relevant financing period;
- unifying management fees across all banks in Saudi Arabia;
- providing customers with summaries of their financings, which include basic details of the financing and also reference key provisions of the financing;
- prescribing rules and standards in relation to how banks deal with customers; and
- emphasising the principles of transparency and disclosure in consumer finance contracts.

The New Regulations are aimed at ensuring that consumer finance contracts have enhanced levels of disclosure and transparency and are aimed at, among other things, enabling customers to be better informed of their rights and obligations under their financings. Pursuant to the New Regulations, consumer finance contracts should set out, among other things:

- details of the financing, including the total cost of the financing;
- the calculation method for determining profit;
- all charges, commission and administration fees;
- the consequences of delays in payment of instalments; and
- the procedure for exercising a customer's right of withdrawal, early settlement or termination.

Real Estate Financing and Finance Leasing

In August 2012, the Saudi Council of Ministers issued a package of legislation approved by Royal Decrees in relation to the finance industry, including real estate financing (the "**Real Estate Finance Law**"), leasing (the "**Finance Lease Law**") and supervision of financial companies (the "**Law of Supervision of Finance Companies**"), in each case, as further described below. In February 2013, SAMA issued the implementing regulations of these laws.

Real Estate Finance Law

This law provides the regulatory architecture for the authorisation and licensing of banks and finance companies to enter the real estate market. In particular:

- banks may own real estate for the purposes of real estate finance – a key feature of Islamic financing products;
- the Government publicises real estate market activity and financiers are granted access to courts and notary registers; and
- a credit check must be conducted against borrowers through one of the authorised credit bureaus.

Finance Lease Law

This law prescribes the rules relating to finance leasing and specifically states that:

- the responsibilities of the lessor and lessee must be carried out in a *Shariah* compliant manner (placing asset risk on the lessor during the lease term but making the lessee responsible for the relevant use);

- the transfer of leased assets is permitted to the lessee upon maturity of the lease term; and
- the lessor is permitted to request payments of future rentals if the lessee is in payment default, provided the number of such payments is not greater than the number of late payments.

Law on Supervision of Finance Companies

This law provides a regulatory and supervisory framework for *Shariah* compliant finance companies to provide SAMA approved forms of financing, including real estate financing.

However, regulations surrounding items such as capital adequacy, loan to value ratios, transaction costs and consumer rights have yet to be announced.

Capital Markets Authority

The CMA was established by the Capital Market Law, issued by Royal Decree No. (M/30) dated 2/6/ 1424H (corresponding to 31/7/2003) as amended by Royal Decree No. (M/16) dated 19/1/1441H (corresponding to 18 September 2019) (the "**CML**"). The CMA is a governmental organisation with financial, legal and administrative independence.

The CMA regulates Saudi Arabia's capital markets. It issues the required rules and regulations for the implementation of the provisions of the CML aimed at creating an appropriate investment environment. Some of the CMA's major objectives are to:

- regulate and develop the capital market;
- protect investors and the general public from unfair and unsound practices involving fraud, deceit, cheating, manipulation and insider trading;
- achieve fairness, efficiency and transparency in securities transactions;
- develop measures to reduce the risks pertaining to securities transactions;
- develop, regulate and monitor the issuance of, and trading in, securities;
- regulate and monitor the activities of entities subject to the control of the CMA;
- regulate and monitor full disclosure of information related to securities and their issuers; and
- regulate proxy and purchase requests and public share offerings.

Formation of the Saudi Stock Exchange (Tadawul)

On 19 March 2007, the Saudi Council of Ministers approved the formation of The Saudi Stock Exchange (Tadawul) Company. This was in accordance with Article 20 of the Capital Market Law establishing Tadawul as a joint stock company.

In the early 1980s, the Government embarked on forming a regulated market for trading. In 1984, a Ministerial Committee composed of the Ministry of Finance and National Economy, the Ministry of Commerce and SAMA was formed to regulate and develop the market. SAMA was the government body charged with regulating and monitoring market activities until the establishment of the CMA in July 2003. As the sole regulator and supervisor of the capital markets, the CMA issues the required rules and regulations to protect investors and ensure fairness and efficiency in the market.

Management of Liquidity and Credit Risk

Under the BCL, a bank's deposit liabilities must not exceed 15 times its reserves and paid-up share capital or invested capital. The current percentage specified by SAMA for a statutory deposit is 7 per cent. of total customers' demand deposits and 4 per cent. of balances due to banks and other financial institutions (excluding balances due to SAMA and non-resident foreign currency deposits), savings, time deposits and margins of letters of credit and guarantee (excluding all types of repo deposits).

In addition to the statutory deposit, each bank in Saudi Arabia is also required to maintain a liquid reserve of at least 20 per cent. of its total deposit liabilities. The liquid reserve must comprise cash, gold or assets which can be converted into cash within a period not exceeding 30 days in order to comply with the requirements of the BCL.

Previously, the BCL set a maximum limit on the amount of financial liability that a bank may incur in respect of any one person. This was replaced by the SAMA Rules on Large Exposures of Banks on 1 July 2015. Under the new rules, a bank may not grant a loan, extend a credit facility, give a guarantee or incur any other financial liability in respect of any one person in an aggregate amount exceeding:

- in the case of banks, 25 per cent. of its total eligible capital;
- in the case of companies, 15 per cent. of its total eligible capital; and
- in the case of individuals, 5 per cent. of its total eligible capital.

For large exposures that existed prior to 1 July 2015, transitionary limits exist to facilitate compliance by 1 January 2019.

SAMA also has the power to regulate the liquidity and credit risk of a bank by restricting, among other things, the maximum amount of money which may be loaned by a bank, the level of a bank's exposure to a single customer and the categories of loans which a bank can make. These restrictions may vary from bank to bank depending on the relevant circumstances and are in addition to the statutory deposit and liquid reserve requirements provided for in the BCL.

SAMA carries out a full review of the operations of each bank every three years and more regular assessments of specific functions within each institution. SAMA has also intervened to support banks that have found themselves in difficulties. Similarly, it allowed distressed banks to benefit from low cost of funding in the 1980s.

Over the years, SAMA has developed a reputation as a strict regulator. In 1989, SAMA introduced accounting and disclosure standards for commercial banks in Saudi Arabia, which essentially comply with IFRS. All banks in Saudi Arabia are now in compliance with IFRS and the Accounting Standards for Commercial Banks issued by SAMA. The banks also prepare their financial statements to comply with the BCL and the Regulations for Companies promulgated under Royal Decree No. M/3 dated 28/1/1437H (corresponding to 10 November 2015) (the "**Companies Regulations**") in Saudi Arabia.

Reporting Requirements

Banks are required to submit monthly statements of the consolidated financial position of their domestic and foreign branches. Banks also have to submit quarterly, semi-annual and annual reports to SAMA. These reports are comprehensive and deal with matters such as the maturity schedule of credit facilities, risk concentrations, large exposures, foreign exchange exposure, analysis of specific loan loss reserves and a calculation of the relevant bank's risk asset based capital adequacy.

Banks are required to submit their audited consolidated annual financial statements to SAMA within six months of each financial year end and listed banks are required to report within three months in accordance with the CMA Rules on the Offer of Securities and Continuing Obligations. Annual consolidated financial statements have to be audited by at least two independent joint auditors. The published audited consolidated financial statements of Saudi banks are required to be compliant with IFRS as modified by SAMA for the accounting of Zakat and income taxes, which requires adoption of all IFRS as issued by the IASB except for the application of International Accounting Standard (IAS) 12, "*Income Taxes*" and IFRIC 21, "*Levies*" so far as these relate to Zakat and income tax. As per the SAMA Circular No. 381000074519 dated 11 April 2017 and subsequent amendments relating to the accounting for Zakat and income tax, the Zakat and income tax are to be accrued on a quarterly basis through shareholders equity under retained earnings. The consolidated financial statements are also required to comply with the BCL and the Companies Regulations. Listed joint stock companies have to publish quarterly financial statements as their stocks are listed on Tadawul. However, quarterly financial statements are reviewed by the auditors in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" and are limited in terms of the scope of procedures performed.

Since SAMA introduced mandatory disclosure standards, there has been an improvement in the level of disclosure by Saudi banks. Banks now publish a breakdown of loans by sector and geography, in addition to loans to the Government and related parties. Banks also report doubtful loans, loan loss reserves and write-offs.

Anti-Money Laundering and Counter-Terrorist Financing

Saudi Arabia is a signatory to, and has implemented measures required by, the 1988 United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, the International Convention for the Suppression of the Financing of Terrorism and various other international conventions and agreements relating to money laundering and terrorist financing.

Money laundering is considered an offence under *Shariah* law. Over the past 10 years, Saudi Arabia has put into place a relatively comprehensive legislative and regulatory framework that deals with money laundering and terrorist financing. Saudi Arabia implemented its first customer identification procedure in 1975. Beginning in the mid-1990s, Saudi Arabia began to put in place a more expansive AML regime with the issuance of the 1995 AML manual and several other circulars from SAMA and other government agencies.

Saudi Arabia has comprehensive rules covering KYC, AML and counter-terrorist financing requirements for the banking sector. In April 2003, SAMA issued updated Rules Governing the Opening of Bank Accounts and General Operational Guidelines (SAMA No. 3222/BCI/60: dated 8 April 2003) (the "**Account Opening Rules**"). These rules contain comprehensive requirements governing customer identification, the opening and maintenance of bank accounts, the transmission of funds and the deposit of cash and also contain detailed rules controlling the operation of bank accounts for charitable and welfare organisations. In 2008, SAMA revised the Account Opening Rules by adding additional requirements and providing guidelines on dealing with non-resident individuals, entities and multi-lateral organisations. A fourth update of these rules was issued during 2012 in which, among other changes, SAMA made certain additions to the list of specified legal entities subject to KYC requirements and account operating controls and increased the KYC required information for corporate clients to identify their beneficial owners.

Saudi Arabia's existing AML regime was overhauled by SAMA in May 2003 with its issue of Rules Governing Anti-Money Laundering and Combating Terrorist Financing (SAMA No. BCI/122: dated 27 May 2003) (the "**AML/CTF Rules**"). The AML/CTF Rules govern, among other things, the reporting of suspicious transactions, transaction monitoring, customer and transaction profiling, risk assessment, control systems, compliance programmes, reviews and audits, KYC policies and standards and record retention. Since 2003, the

AML/CTF Rules were updated in December 2008 and in February 2012, in line with SAMA's continued efforts to further improve and refine the AML/CTF Rules and cope with the local, regional and global developments.

In August 2003, Saudi Arabia updated its existing AML statutes with the enactment of the Anti-Money Laundering Law (pursuant to Royal Decree No. M/39 dated 24 August 2003) and its implementing regulations (the "**AML Law**"), providing an up-to-date statutory basis for money laundering and terrorist financing offences. A Financial Intelligence Unit was also established, enabling a greater international exchange of financial information in cases of suspected money laundering and terrorist financing amongst law enforcement agencies and regulators.

In November 2005, SAMA issued a circular (SAMA No. 35185/MAT/539: dated 22 November 2005) requiring all banks and financial institutions operating in Saudi Arabia to strictly comply with the provisions of the AML Law. The Authorised Persons Regulations issued by the Board of the CMA pursuant to its Resolution number 1-83-2005, dated 21/5/1426H (corresponding to 28/6/2005), as amended also require investment banks to comply with the AML Law.

In December 2008, the Board of the CMA issued the Anti-Money Laundering and Counter-Terrorist Financing Rules pursuant to its Resolution Number 1-39-2008, dated 03/12/149H (corresponding to 01/12/2008), as amended. The first update of the Anti-Money Laundering and Counter-Terrorist Financing Rules was issued in February 2012.

In April 2012, Saudi Arabia updated its existing AML Law and Implementing Rules (pursuant to Royal Decree No. M/31 dated 11/05/1433H), and in April 2013, SAMA issued a circular (SAMA No. 34100074807MAT, dated 15/06/1434H) requiring all banks and financial institutions operating in Saudi Arabia to strictly comply with the updated AML Law and Implementing Rules.

The GCC is in the unique position of being a member of the Financial Action Task Force on Money Laundering (the "**FATF**"), even though the individual member slates of the GCC are not FATF members. Saudi Arabia is also a full member of the Middle East and North Africa Financial Action Task Force (the "**MENA-FATF**"). As a member of the GCC, Saudi Arabia has issued laws and regulations designed to comply with the "Forty Recommendations on Money Laundering" issued by the FATF.

In September 2003, the FATF carried out, in conjunction with the GCC, the mutual evaluation of Saudi Arabia. This evaluation was the sixth evaluation of the GCC member states and was performed on the basis of the common anti-money laundering/counter-terrorist financing assessment methodology employed by the FATF. With the approval of the evaluation of Saudi Arabia in February 2004, all GCC member states have now undergone a mutual evaluation and the GCC first round of evaluations has been completed.

Saudi Arabia underwent a joint assessment conducted by the MENA-FATF in participation with FATF, based on the "40 + 8 FATF Recommendations". The result of this assessment was discussed in May 2010 in the MENA-FATF meeting in Tunisia and in the plenary meeting of FATF held in June 2010 in Amsterdam where Saudi Arabia achieved a very positive result. The assessment report of Saudi Arabia can be found on the websites of MENA-FATF and FATF.

Independent Auditors

As a measure of prudence, SAMA requires all banks in Saudi Arabia to be audited jointly by two independent auditors.

Financial Requirements

SAMA has introduced regulations to ensure that banks do not have disproportionate concentrations of risk in any one sector or client and that sufficient liquidity and capitalisation is maintained to support bank activities. The most significant regulations are summarised below:

Doubtful and Past Due Loans/Loan Loss Reserves

In 2004, SAMA issued regulations regarding the classification of assets, as well as provisioning norms. The table below shows the classifications and the reserves required for prudential regulation purposes:

Classification	Defined as	Reserve requirement
Current	No problems	1 per cent. of outstanding
IA (special mention).............	Potential weakness	1 per cent. of outstanding
II (Substandard).....................	Inadequate capacity to pay and/or profit or principal overdue by more than 90 days	25 per cent. of outstanding
III (Doubtful)	Full collection questionable and/or overdue by more than 180 days	50 per cent. of outstanding
IV (Loss)	Uncollectible and/or overdue by more than 360 days	100 per cent. of outstanding

Prior to 2018, the provision is made by the relevant bank in its audited financial statements in accordance with the requirements of International Accounting Standard 39 (Financial Instruments: Recognition and Measurement). With effect from 1 January 2018, all Saudi banks have adopted IFRS 9 "Financial Instruments". Among other things, IFRS 9 provides a new model for the calculation of impairment provisions which now will be recognised based on a forward-looking "Expected Credit Loss" model. The impairment assessment will now be based on forward-looking elements, including an economic forecast covering key macroeconomic factors such as unemployment, GDP growth, inflation, special commission rates and other market related variables, obtained through internal and external sources. This approach is expected to result in an increase in the total level of impairment allowances over the IAS 39 determined levels, although SAMA has permitted the impact that this would have otherwise immediately had on bank's capital ratios to be recognised over a five-year period.

Liquidity

Saudi banks are required to maintain liquid assets of at least 20 per cent. of deposit liabilities. For the purposes of this calculation, cash, gold, treasury bills, government bonds, up to one month placements and any asset that can be liquidated within 30 days are included. The breakdown of call deposits, savings accounts and time deposits must also be shown on the balance sheet. The maturity of assets and liabilities has to be disclosed to determine the sensitivity to commission rate risk.

Capital Adequacy

The GCC has introduced a common standard for capital adequacy based on BIS capital adequacy standards. The GCC standard applicable in Saudi Arabia recommends a minimum 8 per cent. ratio of capital to risk weighted assets, including off-balance sheet risk. Assets are categorised into four risk groups carrying varying risk weights according to the risk assessment of the counterparty. There are also two levels of country risk, one for the GCC and member countries of the Organisation for Economic Cooperation and Development (the "**OECD**") and others that have special lending arrangements with the IMF under its general agreement to borrow, considered a preferred risk. All other countries are considered full risk. In contrast, BIS only counts

Saudi risk and not all of the GCC at par with OECD. The other major difference is that the GCC standards account for mortgage loans as 100 per cent. risk as opposed to 50 per cent. under BIS standards.

Deposit liabilities of banks are limited to 15 times capital and reserves. In cases where this ratio is exceeded, banks have to place interest free deposits of half the excess amount with SAMA. Furthermore, 25 per cent. of net profits (after deduction of Zakat liabilities) have to be transferred to statutory reserves until the reserve balance equals paid-up capital.

SAMA required banks to report on a Basel III compliant basis with effect from 1 January 2013 based on the Basel III guidelines issued in December 2012 and enhancements issued in July 2014. SAMA continues to issue circulars relating to the ongoing development and implementation of the Basel Committee's proposed reforms and guidance for adoption in Saudi Arabia.

Basel III Framework

In response to the global financial crisis which commenced in 2007, the Basel Committee enhanced its capital measurement and capital standards by issuing a new capital framework (the "**Basel III Framework**"). The Basel III Framework focuses on strengthening the quality of regulatory capital, raising the minimum capital requirements, enhancing risk coverage and reducing cyclicality of regulatory capital. It introduces new leverage and liquidity ratio requirements and capital buffers to promote the build-up of capital. These enhancements were implemented by means of a staggered approach up to 2019.

Since 2011, SAMA has introduced the main elements of the Basel III Framework in accordance with the timelines agreed by the Basel Committee. This includes the introduction of the leverage ratio in 2011 and the liquidity ratio in 2012 under the SAMA monitoring framework together with the final capital adequacy ratio framework in 2013.

SAMA has issued final liquidity guidelines on the Liquidity Coverage Ratio (the "**LCR**") and the Net Stable Funding Ratio (the "**NSFR**"). The LCR and NSFR became minimum standards from 1 January 2015 and 1 January 2016, respectively.

The Leverage ratio framework is currently under the parallel run phase by SAMA.

The Basel III Framework requires banks' exposures to be backed by a high quality capital base. To this end, the predominant form of Tier 1 capital must be common shares and retained earnings. The Basel Committee principles adopted by SAMA ensure that banks hold high quality Tier 1 capital that represents "Pure Capital" which is highly "Loss Absorbent" through the following measures:

- deductions from capital and prudential filters to be generally applied at the level of common equity or its equivalent;
- subordinated debt of high quality;
- fully discretionary non-cumulative dividends or coupons;
- neither a maturity date nor an incentive to redeem;
- innovative hybrid capital instruments with an incentive to redeem through features such as step-up clauses, currently limited to 15 per cent. of the Tier 1 capital base, will be phased out;
- Tier 3 capital instruments to cover market risks are eliminated; and
- to improve market discipline, the transparency of the capital base will be improved, with all elements of capital required to be disclosed along with a detailed reconciliation to the reported accounts.

After completing the implementation of Basel III standards related to capital, the minimum requirements for regulatory capital, excluding capital buffers, will be:

- common equity tier 1 must be at least 4.5 per cent. of risk-weighted assets at all times;
- Tier 1 Capital must be at least 6.0 per cent. of risk-weighted assets at all times; and
- Total Capital (Tier 1 Capital plus Tier 2 Capital) must be at least 8.0 per cent. of risk-weighted assets at all times.

SUMMARY OF THE PRINCIPAL TRANSACTION DOCUMENTS

The following is a summary of certain provisions of the principal Transaction Documents and is qualified in its entirety by reference to the detailed provisions of the principal Transaction Documents. Copies of the Transaction Documents will be available for inspection at the offices of the Principal Paying Agent (as defined in the Conditions).

Purchase Agreement

The Master Purchase Agreement will be entered into on 11 February 2020 between Riyad Sukuk Limited (in its capacities as Trustee and as Purchaser) and Riyad Bank (in its capacity as Seller) and will be governed by the laws of the Kingdom. A Supplemental Purchase Contract (together with the Master Purchase Agreement, each a "**Purchase Agreement**") between the same parties will be entered into on the Issue Date of each Tranche and will also be governed by the laws of the Kingdom. Pursuant to the Purchase Agreement, the Seller will irrevocably and unconditionally sell, transfer and assign to the Purchaser, and the Purchaser will buy from the Seller, (i) (on the issue date of the first Tranche of a Series) the relevant Initial Portfolio together with the transfer and/or assignment (as applicable) by the Seller to the Purchaser of all of the Seller's rights, title, interests, benefits and entitlements in, to and under the Assets which comprise the relevant Initial Portfolio and (ii) (on each date on which any additional Certificates are issued) the relevant Additional Portfolio together with the transfer and/or assignment (as applicable) by the Seller to the Purchaser of all of the Seller's rights, title, interests, benefits and entitlements in, to and under the Assets which comprise the relevant Additional Portfolio.

Servicing Agency Agreement

The Servicing Agency Agreement will be entered into on 11 February 2020 between Riyad Sukuk Limited (in its capacity as Trustee) and Riyad Bank (as Servicing Agent of each Portfolio) and will be governed by English law, except for Clause 8.2(ii) thereof, which shall be governed by the laws of Saudi Arabia.

Services

Pursuant to the Servicing Agency Agreement, the Trustee will appoint the Servicing Agent to service the Portfolio applicable to each Series. In particular, the Servicing Agent will, in relation to each Series, perform, amongst other things, the following services (the "**Services**") as agent of the Trustee:

(a) it will service the Portfolio in accordance with the investment plan set out in the Schedule to the Servicing Agency Agreement (a copy of which will be scheduled to the relevant Supplemental Purchase Contract), which includes the annual amount of expected Portfolio Income Revenues (as defined below) of the Portfolio (the "**Expected Portfolio Income Revenues Amount**"), which shall be completed at the time of issue of the first Tranche of the relevant Series upon receipt from the Trustee of the relevant Supplemental Purchase Contract and shall be updated from time to time upon the issue of any further Tranche of the same Series;

(b) if the Trustee issues an additional Tranche, the Servicing Agent will, as soon as practicable after such issuance, amend the Investment Plan (as defined in the Servicing Agency Agreement) for that Series to take into account the issuance of such Additional Tranche;

(c) it will at no time substitute any Asset(s) for any Asset(s) of a Value less than the Value of the Asset(s) so substituted;

(d) it will use its best endeavours promptly to place (for and on behalf of the Trustee) all Portfolio Principal Revenues in acquiring, for and on behalf of the Trustee, further Assets and, to the extent insufficient Assets are available, to invest the cash sums representing such Portfolio Principal Revenues in *Shari'a*-

Compliant Investments (being an investment product which is structured to comply with *Shari'a* principles, including investment deposits with a *Shari'a*-compliant financial institution) until it can, using its best endeavours, place those sums in further Assets;

(e) it will do all acts and things (including execution of such documents, issue of notices and commencement of any proceedings) that it considers (and without the need for the consent of the Trustee) reasonably necessary to ensure the assumption of, and compliance by, each Asset Obligor with its covenants, undertakings or other obligations under the Asset Contract to which it is a party in accordance with applicable law and the terms of the Asset Contract, in each case in respect of the Assets;

(f) it will discharge, or procure the discharge of, all obligations to be discharged by the Trustee and Riyad Bank (in whatever capacity) in respect of any of the Assets under all Asset Contracts, it being acknowledged that the Servicing Agent may appoint one or more agents to discharge these obligations on its behalf;

(g) it will pay on behalf of the Trustee any actual costs, expenses, losses and Taxes (as defined in the Servicing Agency Agreement) which would otherwise be payable by the Trustee as a result of the Trustee's ownership of the Portfolio, such actual costs, expenses, losses and Taxes will be reimbursed in accordance with the Servicing Agency Agreement;

(h) it will use all reasonable endeavours to ensure the timely receipt of all Portfolio Revenues, investigate non-payment of Portfolio Revenues and generally make all reasonable efforts to collect or enforce the collection of such Portfolio Revenues under all Asset Contracts as and when the same shall become due;

(i) it will ensure that all Portfolio Income Revenues are received free and clear of, and without withholding or deduction for, Taxes (as defined therein);

(j) it will use all reasonable endeavours to ensure that the Portfolio Income Revenues are at least equal to the Expected Portfolio Income Revenues Amount;

(k) it will maintain the Collection Accounts as described further under "—*Collection Accounts*";

(l) it will obtain all necessary authorisations in connection with any of the Assets and its obligations under or in connection with the Servicing Agency Agreement;

(m) it will use its reasonable endeavours to maintain the Portfolio Value at least equal to the outstanding face amount of the relevant Certificates;

(n) it shall use its reasonable endeavours to ensure that all Asset Obligors maintain industry standard insurances and fulfil all structural repair and major maintenance obligations (each in accordance with the terms of the relevant Asset Contracts relating to the Assets);

(o) (other than in cases where no Tier 2 Certificates remain outstanding following a write-down) if, on the Scheduled Dissolution Date or on a Dissolution Date (as the case may be), Riyad Bank fails to pay an Exercise Price (as defined in the Purchase Undertaking or the Sale and Substitution Undertaking, as the case may be) in accordance with clauses 2 and 3 of the Purchase Undertaking or clauses 2 and 3 of the Sale and Substitution Undertaking (as the case may be):

(i) the Trustee shall maintain its ownership interest in the relevant Portfolio;

(ii) the Servicing Agent shall continue to perform the Services in respect of such Portfolio; and

(iii) unless otherwise instructed by the Delegate, the Servicing Agent will, for the period for which any Exercise Price remains outstanding, continue to credit all Portfolio Revenues in accordance with clause 6 of the Servicing Agency Agreement; and

(p) it shall carry out any incidental matters relating to any of the above.

For the purposes of the Servicing Agency Agreement, "**Value**" means, in respect of any Asset, the amount in the Specified Currency (following conversion, if necessary, of any relevant amount(s) at the spot rate of exchange) determined by the Servicing Agent on the relevant date as being equal to: (i) in the case of Ijara Assets which are leased on an *ijara muntahiah bittamleek* (financial lease) basis, the aggregate of all outstanding fixed rental instalment amounts payable by the lessee or other equivalent fixed instalment amounts payable by the obligor, in each case in the nature of capital or principal payments in respect of the relevant asset, (ii) in the case of Ijara Assets which are not leased on an *ijara muntahiah bittamleek* (financial lease) basis, the initial agreed value or the outstanding base amounts or other equivalent of aggregate fixed instalment amounts payable by the obligor or any other amounts in the nature of capital or principal payments in respect of the relevant asset and, (iii) in the case of Other Shari'a Compliant Assets (as defined in the Master Purchase Agreement), the outstanding capital or investment amounts.

Records and documents

The Servicing Agent will undertake, in relation to each Series, that it will keep and maintain (and provide to the Trustee within 60 days of receiving a request in writing) all documents, books, records and other information reasonably necessary or advisable for the collection of all amounts due in respect of the Assets and all amounts credited to the Collection Accounts (including, without limitation, records adequate to permit the identification of all amounts received in respect of each Asset) and, except to the extent it is under any duty or obligation to keep such information confidential, make such documents, books, records and other information available to the Trustee or such other person as the Trustee may reasonably request.

The Servicing Agent will agree in the Servicing Agency Agreement:

(a) to provide the Services in accordance with all applicable laws and regulations;

(b) to provide the Services with the degree of skill and care that it would exercise in respect of its own assets; and

(c) to service the Assets in accordance with *Shari'a* principles as laid down by its Fatwa and Sharia Supervisory Board.

Service Agency Liabilities Amounts and Fees

The Trustee and the Servicing Agent will agree that any Service Agency Liabilities Amounts incurred by the Servicing Agent in providing the Services in relation to a Series shall be paid by the Trustee by way of the application of amounts standing to the credit of the Income Collection Account by the Servicing Agent on the Trustee's behalf in payment of such amounts (as described below) or otherwise on the final Dissolution Date. For these purposes, "**Service Agency Liabilities Amounts**" means, in relation to each Series, the amount of any claims, losses, costs and expenses properly incurred or suffered by the Servicing Agent or other payments made by the Servicing Agent on behalf of the Trustee, in each case in providing the Services during a "**Distribution Period**" (being a period that corresponds with the relevant Return Accumulation Period under the Certificates), but does not include amounts in respect of Liquidity Facilities (as defined below).

Riyad Bank shall be entitled to receive a fixed fee of U.S.$100 for acting as Servicing Agent under the Servicing Agency Agreement. In addition, following payment of all amounts due and payable under the Certificates of each Series on the final Dissolution Date, the Servicing Agent will be entitled to retain any amounts that remain standing to the credit of the Income Reserve Collection Account for its own account as an incentive payment for acting as Servicing Agent.

Asset Substitutions

In the Servicing Agency Agreement, the Trustee and the Servicing Agent will agree that, in relation to each Series and provided that no Dissolution Event has occurred and is continuing, Riyad Bank may at any time exercise its rights under the Sale and Substitution Undertaking to substitute (and, upon any Asset ceasing to be an Eligible Asset, the Servicing Agent will procure that Riyad Bank uses all reasonable endeavours to so substitute) any one or more of the Assets as Riyad Bank may select (subject to any such Substituted Asset(s) being the Asset(s) ceasing to be Eligible Asset(s), if applicable) in accordance with the Sale and Substitution Undertaking. The new Asset(s) for these purposes will be Eligible Assets (as defined in the Master Purchase Agreement) of a Value not less than the Value of the Substituted Asset(s), and any such substitution shall otherwise be undertaken on the terms and subject to the conditions of the Servicing Agency Agreement and the Sale and Substitution Undertaking.

Collection Accounts

In relation to each Series, the Servicing Agent will maintain three ledger accounts (such accounts being the "**Principal Collection Account**", the "**Income Collection Account**" and the "**Income Reserve Collection Account**") in its books (each of which shall be denominated in the Specified Currency) in which all revenues from the Assets (the "**Portfolio Revenues**") will be recorded. The Portfolio Revenues include all rental and other amounts payable by the relevant Asset Obligor under the terms of the relevant Asset Contract, and all sale proceeds or consideration, damages, insurance proceeds, compensation or other sums received by the Servicing Agent or Riyad Bank in whatever currency in respect of or otherwise in connection with the relevant Assets. All Portfolio Revenues in relation to each Series will be recorded:

(a) to the extent that any such amounts comprise amounts in the nature of sale, capital or principal payments in respect of the relevant Assets, expressed, whenever applicable, as an amount in the Specified Currency (following conversion, if necessary, of any relevant amounts at the spot rate of exchange determined by Riyad Bank) ("**Portfolio Principal Revenues**") in the Principal Collection Account; and

(b) to the extent that any such amounts comprise amounts other than Portfolio Principal Revenues ("**Portfolio Income Revenues**"), in the Income Collection Account.

Amounts standing to the credit of the Income Collection Account relating to each Series will be applied by the Servicing Agent on each "**Distribution Determination Date**" (being the Business Day immediately prior to the relevant Periodic Distribution Date under the Certificates of the relevant Series) in the following order of priority:

(a) *first*, in repayment of any outstanding amounts advanced prior to such Distribution Determination Date by way of a Liquidity Facility;

(b) *secondly*, in payment of any Service Agency Liabilities Amounts for the Distribution Period ending immediately before the immediately following "**Distribution Date**" (being the date which corresponds with the relevant Periodic Distribution Date under the Certificates of the relevant Series);

(c) *thirdly*, to pay into the relevant Transaction Account an amount equal to the lesser of the Required Amount (as defined below) payable on the immediately following Periodic Distribution Date and the balance of the Income Collection Account; and

(d) *fourthly*, any amounts still standing to the credit of the Income Collection Account immediately following payment of all of the above amounts shall be debited from the Income Collection Account and credited to the Income Reserve Collection Account.

For the purposes of the Servicing Agency Agreement, the "**Required Amount**" will mean an amount equal to the aggregate of the Periodic Distribution Amounts and any other amounts payable by the Trustee in respect of the relevant Certificates on each relevant Periodic Distribution Date.

The Servicing Agent will be entitled to deduct amounts standing to the credit of the Income Reserve Collection Account at any time and use such amounts for its own account, provided that such amounts are used for *Shari'a*-compliant purposes only, as determined by the Riyad Bank Shariah Committee, and provided that such shall be repaid by it if so required to fund a Shortfall (as defined and described below).

Shortfalls and Liquidity Facilities

If on a Distribution Determination Date (after (i) payment of the relevant amounts standing to the credit of the Income Collection Account into the relevant Transaction Account in accordance with paragraph (c) under "– *Collection Accounts*" and (ii) taking into account any other payments made or to be made into the relevant Transaction Account pursuant to any other Transaction Document) there is a shortfall (each a "**Shortfall**") between:

(a) the amounts standing to the credit of the relevant Transaction Account; and

(b) the Required Amount payable on the immediately following Periodic Distribution Date,

the Servicing Agent will pay into the relevant Transaction Account on that Distribution Determination Date from the amounts standing to the credit of the Income Reserve Collection Account (if any) an amount equal to the Shortfall (or such lesser amount as is then standing to the credit of the Income Reserve Collection Account). If any Shortfall still remains after payment to the relevant Transaction Account of the amounts credited to the Income Reserve Collection Account (as described in this paragraph) and after payment to the relevant Transaction Account of all other amounts payable pursuant to any other Transaction Document, the Servicing Agent may either (A) provide *Shari'a*-compliant funding itself or (B) procure *Shari'a*-compliant funding from a third party, in each case, to the extent necessary, by payment of the same into the relevant Transaction Account, on terms that such funding is repayable (i) from Portfolio Income Revenues in accordance with the Servicing Agency Agreement or (ii) on the date on which the Certificates of the relevant Series are redeemed in full, to ensure that the Trustee receives on each Distribution Determination Date the Required Amount payable by it in accordance with the Conditions of the relevant Series on the immediately following Periodic Distribution Date (such funding in relation to a Series, a "**Liquidity Facility**").

Payments under the Servicing Agency Agreement

The Servicing Agent will agree in the Servicing Agency Agreement that all payments by it under the Servicing Agency Agreement will be made without any deduction or withholding for or on account of tax unless required by law and (save as set out therein and without prejudice to paragraph (i) under "– *Services*") without set-off or counterclaim of any kind and, in the event that there is any deduction or withholding, the Servicing Agent shall pay all additional amounts as will result in the receipt by the Trustee of such net amounts as would have been received by it if no such deduction or withholding had been made. The payment obligations of the Servicing Agent under the Servicing Agency Agreement will be: (i) (in the case of Senior Certificates) direct, unconditional, unsubordinated and (subject to the provisions of the Purchase Undertaking) unsecured obligations of the Servicing Agent which rank at least *pari passu* with all other present and future unsubordinated and unsecured obligations of Riyad Bank, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application; and (ii) (in the case of Tier 2 Certificates) direct, unsecured and subordinated obligations of Riyad Bank which shall, in the case of a Winding Up Proceeding, rank: (a) subordinate to claims in respect of Senior Obligations; (b) at least *pari passu* with claims in respect of Parity Obligations and (c) in priority to all claims in respect of Junior Obligations. The Trustee will irrevocably waive its rights to the extent necessary to give effect to the subordinate provisions in (ii) above.

Purchase Undertaking

The Purchase Undertaking will be executed as a deed on 11 February 2020 by Riyad Bank in favour of Riyad Sukuk Limited (in its capacity as Trustee) and the Delegate, and will be governed by English law, except for clause 4.2(ii) thereof, which shall be governed by the laws of Saudi Arabia.

Riyad Bank will, in relation to each Series, irrevocably undertake in favour of the Trustee and the Delegate to purchase all of the Trustee's rights, title, interests, benefits and entitlements in and to the relevant Portfolio on the relevant Scheduled Dissolution Date or any earlier Dissolution Date (other than where the Dissolution Date is a Certificateholder Put Option Date, as to which see below) for the relevant Series at the "**Portfolio Exercise Price**", which shall be an amount in the Specified Currency equal to the aggregate of:

(a) the aggregate outstanding face amount of the Certificates of the relevant Series on the relevant Dissolution Date;

(b) an amount equal to all accrued and unpaid Periodic Distribution Amounts (if any) relating to the Certificates of the relevant Series; and

(c) an amount equal to the sum of any outstanding (i) amounts repayable in respect of any Liquidity Facility and (ii) any Service Agency Liabilities Amounts.

The Trustee will also be entitled to exercise the Purchase Undertaking following any exercise by the Certificateholders of any relevant Series of their right to require the Trustee to redeem their Certificates on a Certificateholder Put Option Date, in which case Riyad Bank will be required to purchase or procure the purchase of a portion of the relevant Portfolio (such portion to comprise the "**Certificateholder Put Option Assets**") with an aggregate Value no greater than the aggregate face amount of the Certificates to be redeemed. The exercise price (the "**Certificateholder Put Option Exercise Price**" and, together with the Portfolio Exercise Price and the Non-Viability Event Exercise Price (as defined below), each an "**Exercise Price**") payable for the Certificateholder Put Option Assets will be an amount in the Specified Currency equal to the aggregate of:

(a) the product of (i) the aggregate face amount of the relevant Certificateholder Put Option Certificates and (ii) the Optional Dissolution Amount (Certificateholder Put) Percentage specified in the applicable Pricing Supplement;

(b) an amount equal to all accrued and unpaid Periodic Distribution Amounts (if any) relating to the relevant Certificateholder Put Option Certificates; and

(c) (only where no Certificate of the relevant Series remains outstanding following the exercise of the Certificateholder Put Option) an amount equal to the sum of any outstanding (i) amounts repayable in respect of any Liquidity Facility and (ii) any Service Agency Liabilities Amounts.

In the case of Tier 2 Certificates only, provided that a Non-Viability Event (as defined below) has occurred, the Trustee will be entitled to require Riyad Bank, on the date specified in the Non-Viability Notice (the "**Non-Viability Event Write-down Date**"), to purchase or procure the purchase of all of the Trustee's rights, title, interests, benefits and entitlements in, to and under the Write-down Portfolio Assets at the Non-Viability Event Exercise Price (as defined below) specified in the Exercise Notice (as defined in the Purchase Undertaking).

A "**Non-Viability Event**" means that the Financial Regulator has notified Riyad Bank in writing that it has determined that Riyad Bank is, or will become, Non-Viable without:

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

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

"**Non-Viability Event Exercise Price**" means, in relation to each Series (if applicable), the price payable by Riyad Bank to the Trustee in respect of the purchase by Riyad Bank of all of the Trustee's rights, title, interests, benefits and entitlements in, to and under the Write-down Portfolio Assets, which shall be an amount in the Specified Currency equal to the aggregate of:

(a) the aggregate face amount of the Non-Viability Event Write-down Certificates as at the Non-Viability Event Write-down Date;

(b) an amount equal to all accrued and unpaid Periodic Distribution Amounts (if any) relating to the Non-Viability Event Write-down Certificates up to (but excluding) the Non-Viability Event Write-down Date (provided payment of such amounts are not prohibited by the Financial Regulator or the Capital Regulations at such time); and

(c) (only where no Certificate remains outstanding following the Non-Viability Event Write-down) an amount equal to the sum of any outstanding (i) amounts repayable in respect of any Liquidity Facility and (ii) Service Agency Liabilities Amounts.

If the Delegate exercises any of the options described above, an exercise notice will be required to be delivered by the Delegate under the Purchase Undertaking.

If Riyad Bank fails to pay all or part of any Exercise Price that is due in accordance with the Purchase Undertaking or an equivalent amount by way of indemnity (as further described below), then Riyad Bank will agree in the Purchase Undertaking that it will irrevocably, unconditionally and automatically (without the necessity for any notice or any other action) continue to act as Servicing Agent for the provision of the Services in respect of the relevant Portfolio on the terms and conditions, *mutatis mutandis*, of the Servicing Agency Agreement.

Riyad Bank will expressly declare in the Purchase Undertaking that:

(a) the relevant Exercise Price represents a fair price for the purchase of all of the Trustee's rights, title, interests, benefits and entitlements in, to and under the relevant Portfolio or the relevant Certificateholder Put Option Assets, as the case may be; and

(b) it shall irrevocably, unconditionally and fully accept all or any ownership or other interest the Trustee may have in the relevant Portfolio, the relevant Certificateholder Put Option Assets or the Write-down Portfolio Assets, as the case may be, and, accordingly, shall not dispute or challenge all or any ownership or other interest the Trustee may have in any way.

Riyad Bank will further covenant and undertake to the Trustee in the Purchase Undertaking that if the relevant Exercise Price is not paid in accordance with the provisions of the Purchase Undertaking, whether as a result of a dispute or challenge in relation to the rights, benefits and entitlements of the Trustee in, to and under the Portfolio (or any of the assets comprising the Portfolio), the Certificateholder Put Option Assets or the Write-down Portfolio Assets, as the case may be, or for any other reason, Riyad Bank shall (as an independent, severable and separately enforceable obligation) fully indemnify the Trustee for the purpose of redemption in full of the outstanding Certificates and, accordingly, the amount payable under any such indemnity claim will equal the relevant Exercise Price.

In the Purchase Undertaking, Riyad Bank will undertake (i) in the case of Senior Certificates to comply with Condition 3.7 and will agree that the Riyad Bank Events, applicable to it, shall constitute a Dissolution Event and (ii) in the case of Tier 2 Certificates that the occurrence of any Dissolution Event as set out in Condition 16.2 shall constitute a Dissolution Event, in each case for the purposes of, and in accordance with, the Purchase Undertaking and the Conditions.

Riyad Bank will also agree in the Purchase Undertaking that all payments by it under the Purchase Undertaking will be made free and clear of, and without any deduction or withholding for or on account of, any Taxes (as defined therein) unless required by law and (save as set out therein) without set-off or counterclaim of any kind and, in the event that there is any deduction or withholding, Riyad Bank shall pay all additional amounts as will result in the receipt by the Trustee of such net amounts as would have been received by it if no such deduction or withholding had been made. The payment obligations of Riyad Bank under the Purchase Undertaking (i) in the case of Senior Certificates will be direct, unconditional, unsubordinated and (subject to the provisions described above) unsecured obligations of Riyad Bank which rank at least *pari passu* with all other present and future unsubordinated and unsecured obligations of Riyad Bank, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application and (ii), in the case of Tier 2 Certificates, will be direct, unsecured and subordinated obligations of Riyad Bank which shall rank, in the case of a Winding Up Proceeding: (a) subordinate to claims in respect of Senior Obligations; (b) at least *pari passu* with claims in respect of Parity Obligations; and (c) in priority to all claims in respect of Junior Obligations.

Sale and Substitution Undertaking

The Sale and Substitution Undertaking will be executed as a deed on 11 February 2020 by Riyad Sukuk Limited (in its capacity as Trustee) in favour of Riyad Bank and will be governed by English law.

Pursuant to the Sale and Substitution Undertaking and subject to the Trustee being entitled to redeem the Certificates of the relevant Series for tax reasons in accordance with Condition 11.2 or following a Capital Disqualification Event in accordance with Condition 11.3, Riyad Bank will, by exercising its right under the Sale and Substitution Undertaking and serving an exercise notice on the Trustee no later than 60 days prior to the Tax Event Dissolution Date or no later than 45 days prior to the Capital Disqualification Event Dissolution Date, as the case may be, be able to oblige the Trustee to sell all of its rights, title, interests, benefits and entitlements in, to and under the relevant Portfolio at the relevant Exercise Price. In addition, if the Optional Dissolution Right (Call) is specified in the applicable Pricing Supplement as being applicable, Riyad Bank will, by exercising its right under the Sale and Substitution Undertaking and serving an exercise notice on the Trustee no later than 60 days prior to the relevant Optional Dissolution Date, be able to oblige the Trustee to sell all of its rights, title, interests, benefits and entitlements in, to and under the relevant Portfolio at the relevant Exercise Price.

For these purposes, the "**Exercise Price**" will be an amount equal to the aggregate of:

(a) (where the Certificates of the relevant Series are to be redeemed for tax reasons in accordance with Condition 11.2) the aggregate outstanding face amount of the Certificates of the relevant Series on the relevant Dissolution Date (in the case of Tier 2 Certificates only where the Certificates of the relevant Series are to be redeemed following a Capital Disqualification Event in accordance with Condition 11.3), the product of the (i) aggregate outstanding face amount of the Certificates of the relevant Series on the relevant Dissolution Date and (ii) the Optional Dissolution Amount (Capital Disqualification Event) Percentage specified in the applicable Pricing Supplement or (where the Certificates of the relevant Series are to be redeemed in accordance with Condition 11.4) the product of (i) the aggregate outstanding face amount of the Certificates of the relevant Series on the relevant Dissolution Date and (ii) the Optional Dissolution Amount (Call) Percentage specified in the applicable Pricing Supplement;

(b) an amount equal to all accrued and unpaid Periodic Distribution Amounts (if any) relating to the Certificates; and

(c) an amount equal to the sum of any outstanding (i) amounts repayable in respect of any Liquidity Facility and (ii) any Service Agency Liabilities Amounts (save that in respect of redemption in accordance with Condition 11.4, this paragraph (c) shall apply only where no Certificate remains outstanding following the exercise of the Optional Dissolution (Call)).

Riyad Bank will be able to exercise its rights under the Sale and Substitution Undertaking to effect the in kind substitution of Assets, subject to any substitute Assets being Eligible Assets of a Value not less than the Value of the Substituted Assets subject to, and in accordance with, the provisions of the Sale and Substitution Undertaking. Riyad Bank will also be able to exercise its rights under the Sale and Substitution Undertaking (following any purchase of Certificates by Riyad Bank or any Subsidiary of Riyad Bank pursuant to Condition 15) to provide for the transfer, assignment and conveyance to it of an undivided ownership interest (the "**Cancellation Interest**") in the relevant Portfolio calculated as the ratio, expressed as a percentage, of the aggregate face amount of the relevant Certificates to be cancelled (the "**Cancellation Certificates**") to the aggregate face amount of the Certificates of the relevant Series immediately prior to the cancellation of such Cancellation Certificates, all as more particularly described in the Sale and Substitution Undertaking. The Cancellation Interest will be specified in a cancellation notice and will have a Value no greater than the aggregate face amount of the Certificates of the relevant Series so purchased. Transfer of the Cancellation Interest will occur against cancellation of such Certificates by the Principal Paying Agent pursuant to the Conditions.

Declaration of Trust

The Master Declaration of Trust will be entered into on 11 February 2020 between Riyad Bank, the Trustee and the Delegate and will be governed by English law. A Supplemental Declaration of Trust between the same parties will be entered into on the Issue Date of each Tranche and will also be governed by English law.

Upon issue of the Global Certificate initially representing the first Tranche of any Series, the Master Declaration of Trust and the relevant Supplemental Declaration of Trust shall together constitute the Trust declared by the Trustee in relation to such Series.

The Trust Assets in respect of each Series comprise (unless otherwise specified in the relevant Supplemental Declaration of Trust), *inter alia*, the Trustee's rights, title, interest and benefit, present and future, in, to and under the relevant Portfolio, its rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than (i) in relation to any representations given to the Trustee by Riyad Bank pursuant to any of the Transaction Documents and any rights which have been expressly waived by the Trustee in any of the Transaction Documents and (ii) the covenant given to the Trustee pursuant to clause 13.1 of the Master Declaration of Trust) and any amounts standing to the credit of the relevant Transaction Account and all proceeds of the forgoing.

Each Declaration of Trust will specify that, on or after the relevant Scheduled Dissolution Date or, as the case may be, Dissolution Date of a Series, the rights of recourse in respect of the relevant Certificates shall be limited to the amounts from time to time available and comprising the Trust Assets of that Series, subject to the priority of payments set out in the Declaration of Trust, the relevant Certificates and the Conditions. The Certificateholders have no claim or recourse against Riyad Sukuk Limited in respect of any amount which is or remains unsatisfied and any unsatisfied amounts will be extinguished.

Pursuant to the Declaration of Trust, the Trustee will, in relation to each Series, *inter alia*:

(a) hold the relevant Trust Assets on trust absolutely for the relative Certificateholders *pro rata* according to the face amount of Certificates held by each Certificateholder; and

(b) act as trustee in respect of the relevant Trust Assets, distribute the income from the relevant Trust Assets and perform its duties in accordance with the provisions of the Declaration of Trust.

In the Master Declaration of Trust, the Trustee by way of security for the performance of all covenants, obligations and duties of the Trustee to the Certificateholders will irrevocably and unconditionally appoint the Delegate to be its attorney and in its name and on its behalf to execute, deliver and perfect all documents and to exercise all the present and future duties, powers, trusts, authorities and discretions (including, but not limited to, the authority to request instructions from any Certificateholders and the power to sub-delegate and the power to make any determinations to be made under each Declaration of Trust) vested in the Trustee by each Declaration of Trust that the Delegate may consider to be necessary or desirable in order, upon the occurrence of a Dissolution Event or a Potential Dissolution Event, and subject to its being indemnified and/or secured and/or prefunded to its satisfaction, to perform the present and future duties, powers, authorities and discretions vested in the Trustee by the relevant provisions of each Declaration of Trust and any of the other Transaction Documents (provided that no obligations, duties, liabilities or covenants of the Trustee pursuant to the Master Declaration of Trust or any other Transaction Document will be imposed on the Delegate by virtue of such delegation). The appointment of such delegate by the Trustee is intended to be in the interests of the Certificateholders and will not affect the Trustee's continuing role and obligations as trustee.

The Delegate will undertake in the Master Declaration of Trust that, following it receiving express notice or having actual knowledge of the occurrence of a Potential Dissolution Event or a Dissolution Event in respect of any Series and subject to Condition 16, it shall (a) promptly notify the relevant Certificateholders of the occurrence of such Dissolution Event and (b) upon receipt of a Dissolution Request subject to the Delegate being indemnified and/or secured and/or prefunded to its satisfaction against all liabilities to which it may thereby render itself liable or which it may incur by so doing, the Delegate may take all such steps as are necessary to enforce the obligations of Riyad Bank (in whatever capacity it is acting) under the relevant Declaration of Trust and any other Transaction Document to which Riyad Bank (in whatever capacity) is a party.

Pursuant to the relevant Declaration of Trust, Riyad Bank will also undertake to the Trustee that if the relevant Exercise Price (as defined in the Master Declaration of Trust) is not paid in accordance with the provisions of the Purchase Undertaking, whether as a result of a dispute or challenge in relation to the rights, benefits and entitlements of the Trustee in, to and under the Portfolio (or any of the assets comprising the Portfolio), the Certificateholder Put Option Assets or the Write-down Portfolio Assets (each as defined in the Master Declaration of Trust), as the case may be, or for any other reason, Riyad Bank shall (as an independent, severable and separately enforceable obligation) fully indemnify the Trustee for the purpose of redemption in full of the outstanding Certificates and, accordingly, the amount payable under any such indemnity claim will equal the relevant Exercise Price.

If and to the extent the Trustee has exercised its rights under Condition 22 to issue additional Certificates in respect of a Series, on the date of issue of such additional Certificates, the Trustee will execute a Declaration of Commingling of Assets (as defined in the Master Declaration of Trust) for and on behalf of the holders of the existing Certificates and the holders of such additional Certificates so issued, declaring that the assets comprising the relevant Additional Portfolio transferred to the Trustee (in respect of the issuance of the additional Certificates) and the Assets comprising the Portfolio immediately prior to the acquisition of the Additional Portfolio (in respect of the relevant Series as in existence immediately prior to the issue of such additional Certificates) are commingled and shall collectively comprise part of the Trust Assets for the benefit of the holders of the existing Certificates and the holders of such additional Certificates as tenants in common *pro rata* according to the face amount of Certificates held by each Certificateholder, in accordance with the Master Declaration of Trust.

The Master Declaration of Trust specifies, *inter alia*, that, in relation to each Series:

(i) following enforcing or realising the relevant Trust Asset and distributing the net proceeds of the Trust Assets in respect of the relevant Series to the Certificateholders in accordance with the Conditions and the relevant Declaration of Trust, the obligations of the Trustee in respect of the Certificates shall be satisfied and the right of the Certificateholders to receive any further sums shall be extinguished and neither the Trustee nor the Delegate shall be liable for any further sums and, accordingly, the relevant Certificateholders may not take any action against the Trustee, the Delegate or any other person to recover any such sum or asset in respect of the relevant Certificates or the relevant Trust Assets;

(ii) no Certificateholder shall be entitled to proceed directly against the Trustee and/or Riyad Bank, or provide instructions (not otherwise permitted by the Declaration of Trust) to the Delegate to proceed against the Trustee and/or Riyad Bank under any Transaction Document unless the Delegate, having become bound so to proceed, fails to do so within a reasonable period of becoming so bound and such failure is continuing. Under no circumstances shall the Delegate or any Certificateholders have any right to cause the sale or other disposition of any of the relevant Trust Assets (other than pursuant to the Transaction Documents), and the sole right of the Delegate and the Certificateholders against the Trustee and Riyad Bank shall be to enforce their respective obligations under the Transaction Documents;

(iii) Neither the Delegate or the Trustee shall be bound in any circumstances to take any action to enforce or realise the relevant Trust Assets or take any action against the Trustee and/or Riyad Bank under any Transaction Document unless directed or requested to do so (a) by an Extraordinary Resolution or (b) in writing by the holders of at least a quarter of the then aggregate outstanding face amount of the Certificates of the relevant Series and, in either case, then only if it is indemnified and/or secured and/or prefunded to its satisfaction against all liabilities to which it may thereby render itself liable or which it may incur by so doing, provided that neither the Trustee nor the Delegate shall be held liable for the consequences of exercising its discretion or taking any such action and may do so without having regard to the effect of such action on individual Certificateholders; and

(iv) after enforcing or realising the relevant Trust Assets and distributing the net proceeds of the relevant Trust Assets in accordance with the terms of the relevant Declaration of Trust, the obligations of the Trustee and the Delegate in respect of the Series shall be satisfied and no Certificateholder may take any further steps against the Trustee, the Delegate or any other person to recover any further sums in respect of the relevant Series and the right to receive any such sums unpaid shall be extinguished. In particular, no holder of the Certificates of the relevant Series shall be entitled in respect thereof to petition or to take any other steps for the winding-up of Riyad Sukuk Limited.

Shari'a Compliance

Each Transaction Document provides that each of Riyad Sukuk Limited (to the extent it is a party to the relevant Transaction Document) and Riyad Bank (to the extent it is a party to the relevant Transaction Document), as the case may be, agrees that it has accepted the *Shari'a*-compliant nature of the Transaction Documents to which it is a party; and, to the extent permitted by law:

(a) it shall not claim that any of its obligations under the Transaction Documents to which it is a party (or any provision thereof) is *ultra vires* or not compliant with the principles of *Shari'a*;

(b) it shall not take any steps or bring any proceedings in any forum to challenge the *Shari'a*-compliance of the Transaction Documents to which it is a party; and

(c) none of its obligations under the Transaction Documents to which it is a party shall in any way be diminished, abrogated, impaired, invalidated or otherwise adversely affected by any finding, declaration, pronouncement, order or judgment of any court, tribunal or other body that the Transaction Documents to which it is a party are not compliant with the principles of *Shari'a*.

TAXATION

The following is a general description of certain tax considerations relating to the Certificates issued under the Programme. It does not purport to be a complete analysis of all tax considerations relating to the Certificates. Prospective purchasers of any Certificates should consult their tax advisers as to the consequences under the Tax laws of the country in which they are resident for tax purposes of acquiring, holding and disposing of the relevant Certificates and receiving payments under those Certificates. This summary is based upon the laws as in effect on the date of this Offering Circular and is subject to any change in laws that may take effect after such date.

Kingdom of Saudi Arabia

Unless otherwise stated, capitalised terms in this sub-section shall have the meanings given to them in "*Taxation – Kingdom of Saudi Arabia – General*" below.

The statements herein regarding taxation/Zakat are based on the Kingdom's laws in effect as of the date of this Offering Circular and are subject to any changes occurring after such date, which changes could have retroactive effect. These include the Income Tax Law promulgated under Royal Decree No. M/1 dated 15/1/1425H (corresponding to 6 March 2004) and its By-Laws issued under Ministerial Resolution No. 1535 dated 11/6/1425H (corresponding to 29 July 2004), as amended from time to time (collectively the "**Income Tax Law**"), and the Zakat Collection Regulations issued pursuant to Royal Decree No. 17/04/28/8634 dated 29/06/1370H (corresponding to 07 April 1951) and Implementing Zakat Regulations issued under Ministerial Resolution No. 393 dated 06/08/1470 (corresponding to 13 May 1950) and the Implementing Zakat Regulations under Ministerial Resolution No. 2216 dated 7/7/1440H (corresponding to 14 March 2019) ("Zakat Regulations"), and the Value Added Tax Law promulgated under Royal Decree No. M113 dated 2/11/1438H (Corresponding to 25 July 2017) and its implementing regulations notified under the GAZT Board of Directors Resolution No. 3839 dated 14/12/1438H (corresponding to 5 September 2017) (the "**KSA VAT Law**").

The following summary is a general description of certain Saudi Arabian tax and Zakat considerations relating to the Certificates. It does not purport to be a comprehensive description of all the tax and Zakat considerations which may be relevant for a decision to subscribe for, purchase, own or dispose of the Certificates and does not purport to deal with the tax and Zakat consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules.

Prospective purchasers of the Certificates are advised to consult their own Saudi Arabian tax and Zakat advisers concerning the overall tax and Zakat consequences of their ownership of the Certificates.

Overview of Saudi Tax and Zakat

Corporate Income Tax

Persons Subject to Taxation include a Resident capital company owned by non-GCC persons and a non-Resident who carries out business in the Kingdom through a Permanent Establishment (other than a Permanent Establishment of GCC persons that meet the conditions set out under Article 2(4) of the Zakat Regulations) are subject to corporate income tax in the Kingdom.

As per the Income Tax Law, Persons Subject to Taxation are subject to 20 per cent. corporate income tax (other than legal entities Resident in the Kingdom which are engaged in oil and hydrocarbon) in the Kingdom on their gross income, less deduction of allowable costs and certain other tax adjustments.

However, legal entities Resident in the Kingdom (other than legal entities Resident in the Kingdom which are engaged in oil and hydrocarbon and natural gas production), which are owned jointly by GCC persons and non-

GCC persons are subject to corporate income tax in respect of the share of their profit attributable to the ownership percentage held by non-GCC persons and Zakat on the ownership percentage held by GCC persons.

Non-GCC natural persons Resident in the Kingdom who are not performing commercial activities in the Kingdom (as defined in Article 1 of the Income Tax Law and Article 2 of the By-laws to the Income Tax Law) are not currently subject to corporate income tax in the Kingdom.

In determining the tax or Zakat profile of a legal entity Resident in the Kingdom, the GAZT applies a "look-through" approach to determine whether the up-stream shareholding structure at any point exists outside of the GCC (in other words, at the ultimate shareholder level). However, the "look-through" approach only applies to shareholders that are GCC Resident persons. Therefore, the percentage of the share capital of a legal entity Resident in the Kingdom that is owned by a shareholder entity incorporated outside the GCC is subject to corporate income tax regardless of the nationalities of the ultimate investors in such non-GCC incorporated entity. The amendments to the By-laws to the Income Tax Law issued under Ministerial Resolution No. 1727 dated 25/05/1439H (corresponding to 10 February 2018) have introduced new provisions that may limit the "look-through" approach by GAZT to up to two layers of shareholding above the relevant company Resident in the Kingdom. These amendments have not yet been comprehensively tested with GAZT to assess their practical application.

Finally, as per the Income Tax Law, legal entities Resident in the Kingdom which are engaged in oil and hydrocarbon and natural gas production are subject to corporate income tax in the Kingdom at levels either between 50 per cent. and 85 per cent. (in the case of oil and hydrocarbon production) depending on the level of total capital investment of such entity or 20 per cent. (in the case of natural gas production) on their gross income, less deduction of allowable costs and certain other tax adjustments, regardless of their shareholders being GCC and/or non-GCC persons.

Effective 1 January 2020, Resident companies engaged in oil and hydrocarbons production activities as well as engaged in related downstream activities are subject to 20 per cent. corporate income tax on their profits attributable to downstream activities for the first five years starting from 1 January 2020 if certain conditions are fulfilled.

Zakat

Zakat is an obligation imposed on Muslims by the *Shari'a* law to pay a fixed percentage of their wealth for the relief of poverty.

Zakat is a religious levy subject to varying interpretations and complex computation rules. Separate rules are applicable for the calculation of Zakat by Zakat payers who are engaged in financing activities (licensed by the Saudi Arabian Monetary Authority) and Zakat payers who are engaged in non-financing activities. Persons Subject to Zakat (as defined below) include companies that are owned by GCC persons and/or a Permanent Establishment of GCC Persons in the Kingdom (meeting the conditions set out under Article 2(4) of the Zakat Regulations).

This Taxation section broadly covers the Zakat consequences of investment in Certificates by investors who are engaged in non-financing activities in the Kingdom. In general, Zakat on Zakat payers engaged in non-financing activities is currently levied on the higher of the adjusted Zakatable profits and the Zakat base which, in general, comprises equity, provisions, loans and credit balances (subject to certain conditions) reduced by certain deductible long-term investments, fixed assets etc. plus/minus adjusted profit (loss) for the year for Zakat purposes. The Zakat rate on the Zakat base is 2.578 per cent. if a Zakat payer is following the Gregorian financial year and 2.5 per cent. if a Zakat payer is following the Hijri financial year. The Zakat rate on adjusted net profit is 2.5 per cent. regardless of the financial year (Gregorian or Hijri) followed by the Zakat payer.

Under Article 5(4) of the Zakat Regulations which are in effect as of the date of this Offering Circular in the Kingdom, receivable loans, subordinated/ additional financing and equivalents provided to the investee are not considered as valid deductible investments for Zakat purposes. Therefore, investments in Certificates (whether short term or long term) are not deductible from the Zakat base of the Certificateholder for Zakat purposes.

Withholding Tax ("**WHT**")

Residents of the Kingdom and the Permanent Establishment of a non-Resident are required to withhold taxes on certain payments to non-Residents of the Kingdom, including to residents of the other GCC countries if such payment is from a source in the Kingdom. The WHT rate varies from 5 per cent. to 20 per cent. depending on the nature of the underlying payment. Income earned by the Trustee (i.e. Riyad Sukuk Limited) under the Servicing Agency Agreement in substance is more of a financing activity and as such it should be considered akin to a Loan Fee as per Article 5 (1) of the By-laws to Income Tax Law.

A Loan Fee paid to non-Residents attracts 5 per cent. WHT unless such WHT is reduced or eliminated pursuant to the terms of an applicable double tax treaty. As at the date of this Offering Circular, no effective tax treaty between Saudi Arabia and the Cayman Islands is in place.

As the Trustee (i.e. Riyad Sukuk Limited) is not a Saudi Resident, as noted above, the payment of Periodic Distribution Amounts by Riyad Bank to the Trustee pursuant to the Servicing Agency Agreement will be subject to a 5 per cent. WHT as a Loan Fee.

As stipulated in Condition 13, all payments by Riyad Bank under the Servicing Agency Agreement shall be made free and clear of and without withholding or deduction for, or on account of, any present or future Taxes (as defined in the Conditions). Accordingly, pursuant to the Servicing Agency Agreement, Riyad Bank shall pay additional tax amounts so that the Trustee will receive the full amount which would otherwise be due and receivable.

Value Added Tax ("**VAT**")

VAT is a transactional tax, the consequences of which depend on a number of factors, including the nature and substance of the supply itself, and the place of residence, for VAT purposes, of the parties to the particular transaction, which determines where tax is due.

Persons who are liable to account for VAT in the Kingdom ("**KSA VAT**"), are those who are taxable persons in the Kingdom, making or receiving taxable supplies that are subject to KSA VAT at the applicable rate. Generally, the liability to account for the tax lies with the supplier. However, where the customer is a taxable person in the Kingdom, receiving a supply from a non-resident supplier, the liability to account for the tax shifts to the customer.

The nature and the substance of Sukuk is understood, and therefore their VAT treatment in the Kingdom, and that of any associated transactions, such as distributions and dissolution can be readily determined. Whilst in principle, no Certificate should carry a positive rate VAT charge, the fact that the parties to the transactions may be located within the Kingdom, or outside the Kingdom, means that the precise VAT treatment of the relevant supplies may be any of the following: (i) outside the scope of KSA VAT, (ii) exempt or (iii) subject to VAT at the zero-rate.

In view of the above, in this case the supply of the Certificates by the Trustee should not carry a positive rate VAT charge.

Considering the provisions of the KSA VAT Law, its Implementing Regulations and the relevant VAT guidance released by GAZT as of the date of the Offering Circular, the potential implications for Certificateholders, in relation to the Certificates and the related payment flows are as follows:

Periodic Distributions – periodic distributions received from the Trustee for the supply of credit by the Certificateholders should not carry a positive rate VAT charge, as it would either be exempt, zero-rated or outside of KSA VAT scope. This would depend on the place of residence, for VAT purposes, of the Trustee and/or the Certificateholders.

Dissolution payments - should not create a VAT impact, as the payment does not constitute consideration for a supply for VAT purposes, and therefore should be outside of the KSA VAT scope.

Trading in Sukuk - the sale and purchase of Certificates should not carry a positive rate VAT charge. This is because the sale and purchase of Certificates amounts to a transfer of debt security for VAT purposes, where such transfer would either be exempt, zero-rated or outside of the KSA VAT scope, depending on the place of residence of the trading parties.

Where the seller and buyer are resident in the Kingdom for VAT purposes, the supply would be KSA VAT exempt. Conversely, where both are resident outside the Kingdom for VAT purposes, the transaction would fall outside the scope of KSA VAT. Where the seller is resident for VAT purposes in the Kingdom, and the buyer is not resident for VAT purposes in the Kingdom, the supply by the Certificateholders would be zero-rated, and in the alternate would be an exempt purchase by the buyer.

Certain tax and Zakat implications for Certificateholders

(A) Certificateholders who are GCC persons and Resident in the Kingdom

All income in the nature of a Loan Fee or capital gains realised in respect of the Certificates will be part of such Certificateholder's Saudi Arabian reportable gross income subject to Zakat. This summary does not consider the extent to which such Certificateholder would be liable to Zakat as a consequence of acquiring, holding or disposing of its Certificates. It should be noted that under Article 5(4) of the Zakat Regulations which is in effect as of the date of this Offering Circular in the Kingdom, investment in Sukuk (whether short term or long term) are not deductible from the Zakat base of the Certificateholders for Zakat purposes.

Certificateholders that are legal entities Resident in the Kingdom owned jointly by GCC persons and non-GCC persons are subject to Zakat and corporate income tax in the Kingdom, based on the percentage of shares held by GCC and non-GCC shareholders, respectively.

Certificateholders that are GCC natural persons and Resident in the Kingdom are not subject to Zakat in the Kingdom as per the Zakat Regulations in respect of any income received in the nature of a Loan Fee or capital gains realised in respect of the Certificates, unless such Certificateholder's investment in the Certificates is connected to such Certificateholder's business activity in the Kingdom. If such payment is connected to such Certificateholder's business activity in the Kingdom, such amounts generally will be subject to Zakat in the Kingdom.

Also, capital gains realised by such Certificateholders on the disposition of the Certificates will not be subject to corporate income tax in the Kingdom, provided that the Certificates disposed of are traded on Tadawul, irrespective of whether the sale of such Certificates is effected through a stock exchange (other than Tadawul) or through any other means which are exempt under certain conditions.[5]

[5] Securities (such as Certificates) traded in the Kingdom:

- The disposal is carried out in accordance with the regulations of the financial market in the Kingdom; and
- The investor did not hold securities before the effective date of the Income Tax Law (i.e. 30 July 2004).

Securities (such as Certificates) traded outside of the Kingdom:

- The securities are also traded in a financial market in the Kingdom; and

The exemption on capital gains from the sale of Certificates listed on Tadawul is not applicable for Zakat.

(B) Certificateholders who are Non-GCC persons and Resident in the Kingdom

Certificateholders that are non-GCC persons and Resident in the Kingdom will be subject to corporate income tax in the Kingdom.

Income in the nature of a Loan Fee or capital gains realised (subject to potential exemptions described in the section below) in respect of the Certificates will be part of such Certificateholder's Saudi Arabian reportable gross income, subject to 20 per cent. corporate income tax (other than in respect of persons engaged in oil and hydrocarbon and natural gas production).

Certificateholders that are non-GCC persons and engaged in oil and hydrocarbon and natural gas production in the Kingdom are subject to corporate income tax in the Kingdom. Any income received in the nature of a Loan Fee or capital gains realised (subject to potential exemptions described in this section below) in respect of the Certificates is subject to corporate income tax on the gross income, less deduction of allowable costs and certain other tax adjustments between 50 to 85 per cent. (in the case of oil and hydrocarbon production) or 20 per cent. (in the case of natural gas production).

Certificateholders that are non-GCC natural persons and Resident in the Kingdom are not subject to income tax, be it by way of withholding or by way of direct corporate income tax, in respect of any income received in the nature of a Loan Fee or capital gains realised in respect of the Certificates unless such Certificateholder's investment in the Certificates is connected to such Certificateholder's business activity in the Kingdom. If such payment is connected to such Certificateholder's business activity in the Kingdom, such amounts generally will be subject to 20 per cent. corporate income tax in the Kingdom.

Also, capital gains realised by such Certificateholders on the disposition of the Certificates will not be subject to corporate income tax in the Kingdom, provided that the Certificates disposed of are traded on Tadawul, irrespective of whether the sale of such Certificate is effected through a stock exchange (other than Tadawul) or through any other means which is exempt under certain conditions (as described in footnote 6 above).

(C) Certificateholders who are not Resident in the Kingdom

Certificateholders, either natural persons or legal entities, that are not Resident in the Kingdom, (whether such Certificateholders are GCC persons (other than the Kingdom) or non-GCC persons), *prima facie*, should not be subject to Saudi Arabian tax since any payment (i.e. a Loan Fee) flows from a non-Resident entity (i.e. Trustee or Riyad Sukuk Limited) to Certificateholders that are non-Resident.

However, direct payments by Riyad Bank that are in the nature of a Loan Fee in respect of the Certificates (as provided by the Terms and Conditions of the Certificates) to Certificateholders that are resident outside the Kingdom are subject to WHT at a rate of 5 per cent. in the Kingdom.

The Servicing Agency Agreement requires the Servicing Agent and each of the Purchase Undertaking, the Sale and Substitution Undertaking and the Master Declaration of Trust require Riyad Bank to pay additional amounts in the event that any withholding or deduction is required by applicable law to be made in respect of payments made by it to the Trustee which are intended to fund Periodic Distribution Amounts and Dissolution Amounts.

- the investor did not hold the securities before the effective date of the Income Tax Law (i.e. 30 July 2004).

In a few limited instances, Certificateholders may claim a refund of the WHT where a double tax treaty is in place between Kingdom and the country in which the Certificateholder is resident for tax purposes and where such treaty provides for an exemption, lower tax rate or refund.

Certificateholders, be it natural persons or legal entities, that are not Resident in the Kingdom (whether such Certificateholders are GCC persons or non-GCC persons) with a Permanent Establishment in the Kingdom for tax purposes as defined in Article 4 of the Income Tax Law (other than Permeant Establishment of a GCC person as defined under Article 2 of the Zakat Regulations) will be subject to corporate income tax on the income earned by the Permanent Establishment in the nature of a Loan Fee or capital gains realised from the disposal of Certificates if such a Loan Fee or capital gains realised from the disposal of Certificates is attributable to the Permanent Establishment's activities in the Kingdom.

The income earned by the Permanent Establishment in the nature of a Loan Fee or capital gains realised (subject to the potential exemption described in footnote 6 above) from the Certificates is subject to 20 per cent. corporate income tax (provided that such income from the Certificates is attributable to the Permanent Establishment).

Furthermore, any transfer of the profit to the head office of the Permanent Establishment will be considered to be a distribution of profit and will be subject to a 5 per cent. WHT.

(D) Other Taxes

(a) *Inheritance Tax*

Currently, there is no inheritance or other taxes of a similar nature in the Kingdom.

(b) *Residency*

Certificateholders will not be deemed to be Resident, domiciled or carrying on business in the Kingdom solely by holding any Certificates.

General

For the purposes of this summary:

"**GAZT**" means the General Authority of Zakat and Tax.

"**GCC**" means the Kingdom of Bahrain, the State of Kuwait, the Sultanate of Oman, the State of Qatar, the Kingdom and the United Arab Emirates.

"**GCC person**" means (a) a citizen of any of the member country of the Cooperation Council of the Arab States of the Gulf (namely, the Kingdom, the United Arab Emirates, the Kingdom of Bahrain, the Sultanate of Oman, the State of Qatar and the State of Kuwait), (b) a legal entity owned by GCC citizens and established under the laws of a GCC country and (c) public shareholders (or persons who hold shares for speculation) in a resident listed company (irrespective of their nationalities).

The following persons are not considered to be a GCC person irrespective of their nationalities:

(a) Shareholders of Resident legal entities engaged in oil and hydrocarbons production;

(b) Shareholders of Resident legal entities engaged in natural gas production; and

(c) Shareholders of Resident legal entities if such shares are ultimately owned by a Resident legal entity engaged in the oil and hydrocarbon production (directly or indirectly).

"**Resident**" means any natural person or company that satisfies the residency conditions stipulated in Article 3 of the Income Tax Law or any governmental department or ministry, public entity, or other corporate person or entity formed in the Kingdom (Article 1 of the Income Tax Law).

The concept of Residency in the Kingdom as defined in Article 3 of the Income Tax Law is set out below:

(A) A natural person is considered to be a Resident in the Kingdom for a taxable year if he/she meets either of the two following conditions:

  (a) he/she has a permanent place of abode in the Kingdom and is physically residing in the Kingdom for a period, in aggregate, of not less than 30 days during the taxable year; or

  (b) he/she is physically residing in the Kingdom for a period of not less than 183 days in the taxable year.

For the purposes of this paragraph, residence in the Kingdom for part of a day is considered residence for the whole day, except in the case of a person in transit between two points outside the Kingdom.

(B) A company is considered resident in the Kingdom during the taxable year if it meets either of the following conditions:

  (a) it is formed in accordance with the Saudi Arabian Companies Regulations; or

  (b) its central management is located in the Kingdom.

"**Loan Fee**" as defined in Article 5 (1) of the By-Laws to Income Tax Law means an amount paid for the use of money. This includes income realised from loan transactions of any type, whether secured by guarantees or not, or by giving rights to participate in the profits of the debited person or not. It also includes income realised from governmental and non-governmental bonds.

"**Persons Subject to Taxation**" as defined in Article 2 of the Income Tax Law, are:

  (a) a Resident capital company on non-GCC shares;

  (a) a Resident non-GCC natural person who does business in the Kingdom;

  (b) a non-Resident who does business in the Kingdom through a Permanent Establishment;

  (c) a non-Resident, on income subject to tax from sources within the Kingdom;

  (d) a person engaged in the field of natural gas investment;

  (e) a person engaged in the production of oil and hydrocarbon products;

  (f) persons subject to taxation also include a resident capital company in respect of those shares owned directly or indirectly by persons operating in oil and hydrocarbon production.

Note: A capital company, as per Article 1 of the Income Tax Law, is a joint stock company, a limited liability company or a company limited by shares. For purposes of the Income Tax Law, investment funds shall be considered capital companies.

"**Persons Subject to Zakat**" as per Article 2 of the Zakat Regulations, are:

  (a) Saudi and GCC nationals residing in the Kingdom, carrying on business activity in the Kingdom.

  (b) Companies (listed and unlisted) Resident in the Kingdom in respect of shares owned by GCC persons, as well as anyone who carries on business activity under a license issued by a competent governmental or administrative authority in accordance with rules established by the authority.

(c) Companies (listed) Resident in the Kingdom in respect of shares owned by GCC persons, other than the founders and their assigns, in accordance with the memorandum of association or statutory documents, and the shareholders of Saudi governmental authorities, bodies and institutions.

(d) Permanent Establishment of GCC persons as per Article 2(4) of the Zakat Regulations.

Note: Persons Subject to Zakat does not include Zakat payer on whom a decision is made by the GAZT that he is not subject to Zakat collection.

"**Permanent Establishment**" for income tax purposes means a permanent place of a non-Resident's activity through which it carries out its business activity, in full or in part; including business carried out through its agent (an agent having the meaning specified in the Article 4(1) of the By-laws to the Income Tax Law). A non-Resident carrying out an activity in the Kingdom through a licensed branch (as defined in Article 4(b) 4 of the Income Tax Law) is considered to have a Permanent Establishment in the Kingdom.

"**Permanent Establishment of GCC persons**" is subject to Zakat provided at least two of the following three conditions are met in respect of the central management of such Permanent Establishment (as set out under Article 2(4) of the Zakat Regulations):

(a) Board of Directors' ordinary meetings which are held regularly and where main policies and decisions relating to management and running of the Permanent Establishment's business are held in and made from the Kingdom;

(b) senior executive decisions relating to the Permanent Establishment's functions such as executive directors / deputies' decisions are made in the Kingdom; and

(c) the Permanent Establishment's business is mainly (i.e. 50 per cent. of its revenues) generated from the Kingdom.

The following shall be excluded from the provisions of Article 2(4):

(a) Resident capital companies, in respect of the shares directly/indirectly owned by Zakat payers engaged in the production of oil and hydrocarbons, whether natural or legal persons, resident or non-resident.

(b) A Zakat payer who is not subject to levy of Zakat per a decision from GAZT.

Cayman Islands

The following is a discussion on certain Cayman Islands income tax consequences of an investment in Certificates to be issued under the Programme. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances and does not consider tax consequences other than those arising under Cayman Islands law.

The Trustee has received an undertaking from the Governor in Cabinet of the Cayman Islands pursuant to the Tax Concessions Law (2018 Revision) of the Cayman Islands that, for a period of 20 years from the date of the undertaking, no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Trustee or its operations and, in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable (i) on or in respect of the shares, debentures or other obligations (which includes the Certificates) of the Trustee or (ii) by way of the withholding, in whole or part, of any relevant payment (as defined in the Tax Concessions Law (2018 Revision)). Under existing Cayman Islands laws, payments on Certificates to be issued under the

Programme will not be subject to taxation in the Cayman Islands and no withholding will be required on the payments to any holder of Certificates, nor will gains derived from the disposal of Certificates be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance or gift tax.

Subject as set out below, no capital or stamp duties are levied in the Cayman Islands on the issue or redemption of Certificates. However, an instrument transferring title to any Certificates, if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty. An annual registration fee is payable by the Trustee to the Cayman Islands Registrar of Companies which is calculated by reference to the nominal amount of its authorised capital. At current rates, this annual registration fee is approximately U.S.$853.66. The foregoing is based on current law and practice in the Cayman Islands and this is subject to change therein.

FATCA Disclosure

Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as "**FATCA**", a "**foreign financial institution**" (as defined by FATCA) may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting or related requirements. The Trustee is a foreign financial institution for these purposes. A number of jurisdictions (including the Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Certificates, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as Certificates, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Certificates, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register. Holders should consult their own tax advisers regarding how these rules may apply to their investment in Certificates.

The Proposed Financial Transactions Tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in Certificates (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are expected to be exempt.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Certificates where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "**established**" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may, therefore, be altered prior to any implementation, the timing of which remains unclear. Additional EU Member

States may decide to participate. Prospective holders of Certificates are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

The Dealers have, in a dealer agreement (the "**Dealer Agreement**") dated 11 February 2020, agreed with the Trustee and Riyad Bank a basis upon which they or any of them may from time to time agree to purchase Certificates. Any such agreement will extend to those matters stated under "*Terms and Conditions of the Certificates*". In the Dealer Agreement, each of the Trustee and Riyad Bank has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue, offer and sale of Certificates under the Programme.

Selling Restrictions

United States

The Certificates have not been and will not be registered under the Securities Act, as amended, or the securities laws of any state or other jurisdiction of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except in certain transactions exempt from, or not subject to, the registration requirements of the Securities Act and in accordance with all applicable securities laws of any state or other jurisdiction of the United States. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to agree that, except as permitted by the Dealer Agreement, it will not offer, sell or deliver Certificates (i) as part of their distribution at any time or (ii) otherwise until expiration of 40 days after the completion of the distribution of all Certificates of the Tranche of which such Certificates are a part, as determined and certified to the Principal Paying Agent by such Dealer (or, in the case of a Tranche of Certificates sold to or through more than one Dealer, by each of such Dealers with respect to Certificates of a Tranche purchased by or through it, in which case the Principal Paying Agent shall notify such Dealer when all such Dealers have so certified), within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S of the Securities Act, and it will have sent to each Dealer to which it sells Certificates during the distribution compliance period a confirmation or other notice setting out the restrictions on offers and sales of the Certificates within the United States or to, or for the account or benefit of, U.S. persons. Terms used in the preceding sentence have the meanings given to them by Regulation S.

The Certificates are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S.

In addition, until the expiration of 40 days after the commencement of the offering of any Tranche of Certificates, an offer or sale of Certificates within the United States by any dealer (whether or not participating in the offering of such Tranche of Certificates) may violate the registration requirements of the Securities Act.

This Offering Circular has been prepared by the Trustee and Riyad Bank for use in connection with the offer and sale of the Certificates outside the United States. The Trustee, Riyad Bank and the Dealers reserve the right to reject any offer to purchase the Certificates, in whole or in part, for any reason. This Offering Circular does not constitute an offer to any person in the United States. Distribution of this Offering Circular by any non-U.S. person outside the United States to any U.S. person or to any other person within the United States is unauthorised, and any disclosure without the prior written consent of the Trustee of any of its contents to any such U.S. person or other person within the United States is prohibited.

Prohibition of Sales to EEA and UK Retail Investors

Unless the Pricing Supplement in respect of any Certificates specifies the "**Prohibition of Sales to EEA and UK Retail Investors**" as "**Not Applicable**", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Certificates which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the European Economic Area or in the United Kingdom. For the purposes of this provision:

(a) the expression "**retail investor**" means a person who is one (or more) of the following:

    (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

    (ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

    (iii) not a qualified investor as defined in the Prospectus Regulation; and

(b) the expression an "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Certificates to be offered so as to enable an investor to decide to purchase or subscribe the Certificates.

If the Pricing Supplement in respect of any Certificates specifies "**Prohibition of Sales to EEA and UK Retail Investors**" as "**Not Applicable**", in relation to each Member State of the EEA and the United Kingdom (each, a "**Relevant State**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not made and will not make an offer of Certificates which are the subject of the offering contemplated by this Offering Circular as completed by the applicable Pricing Supplement in relation thereto to the public in that Relevant State, except that it may make an offer of such Certificates to the public in that Relevant State:

(a) if the applicable Pricing Supplement in relation to the Certificates specifies that an offer of those Certificates may be made other than pursuant to Article 1(4) of the Prospectus Regulation in that Relevant State (a "**Non-exempt Offer**"), following the date of publication of a prospectus in relation to such Certificates which has been approved by the competent authority in that Relevant State or, where appropriate, approved in another Relevant State and notified to the competent authority in that Relevant State, provided that any such prospectus has subsequently been completed by the pricing supplement contemplating such Non-exempt Offer, in accordance with the Prospectus Regulation, in the period beginning and ending on the dates specified in such prospectus or pricing supplement, as applicable and the Trustee and Riyad Bank have consented in writing to its use for the purpose of that Non-exempt Offer

(b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Regulation;

(c) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Regulation), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Trustee and Riyad Bank for any such offer; or

(d) at any time in any other circumstances falling within Article 1(4) of the Prospectus Regulation,

provided that no such offer of Certificates referred to above shall require the Trustee, Riyad Bank or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

For the purposes of this provision, the expression an "**offer of such Certificates to the public**" in relation to any Certificates in any Relevant State means the communication in any form and by any means of sufficient information on the terms of the offer and the Certificates to be offered so as to enable an investor to decide to purchase or subscribe the Certificates and the expression "**Prospectus Regulation**" means Regulation (EU) 2017/1129.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) in relation to any Certificates which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Certificates other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Certificates would otherwise constitute a contravention of Section 19 of the FSMA by the Trustee;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Certificates in circumstances in which Section 21(1) of the FSMA does not apply to the Trustee or Riyad Bank; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Certificates in, from or otherwise involving the United Kingdom.

Cayman Islands

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that no invitation or offer, whether directly or indirectly, to subscribe for the Certificates has been or will be made to the public in the Cayman Islands.

Japan

The Certificates have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**FIEA**"). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not directly or indirectly, offered or sold, and will not directly or indirectly, offer or sell, any Certificates in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other relevant laws and regulations of Japan.

United Arab Emirates (excluding the Dubai International Financial Centre)

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Certificates to be issued under the Programme have not been and will not be offered, sold or publicly promoted or advertised by it in the UAE other than in compliance with any laws applicable in the UAE governing the issue, offering and sale of securities.

Dubai International Financial Centre

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered and will not offer the Certificates to be issued under the Programme to any person in the Dubai International Financial Centre unless such offer is:

(a) an "**Exempt Offer**" in accordance with the Markets Rules (MKT) Module of the Dubai Financial Services Authority (the "**DFSA**") rulebook; and

(b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.3 of the Conduct of Business Module of the DFSA rulebook.

Kingdom of Saudi Arabia

No action has been or will be taken in the Kingdom of Saudi Arabia that would permit a public offering of the Certificates. Any investor in the Kingdom or who is a Saudi person (a "**Saudi Investor**") who acquires Certificates pursuant to the offering should note that the offer of Certificates is a private placement restricted to sophisticated investors pursuant to Article 9 of the Rules on the Offer of Securities and Continuing Obligations. The offer of Certificates is therefore exempt from the public offer requirements of the Rules on the Offer of Securities and Continuing Obligations, made through an authorised person licensed a carry out arranging activities by the CMA and following a notification to the CMA under Article 11 of the Rules on the Offer of Securities and Continuing Obligations.

The Certificates may thus not be advertised, offered or sold to any person in the Kingdom of Saudi Arabia other than to "Sophisticated Investors" under Article 9 of the Rules on the Offer or Securities and Continuing Obligations or by way of a limited offer under Article 10 of the Rules on the Offer of Securities and Continuing Obligations. Each Dealer, and each further Dealer appointed under the Programme will be required to represent and agree, that any offer of Certificates by it to a Saudi Investor will be made in compliance with Article 9 or Article 10 of the Rules on the Offer of Securities and Continuing Obligations.

Each offer of Certificates shall not therefore constitute a "public offer", an "exempt offer" or a "parallel market offer" pursuant to the Rules on the Offer of Securities and Continuing Obligations, but is subject to the restrictions on secondary market activity under Article 15 of the Rules on the Offer of Securities and Continuing Obligations. Any Saudi Investor who has acquired Certificates pursuant to a private placement under Article 9 or Article 10 of the Rules on the Offer of Securities and Continuing Obligations may not offer or sell those Certificates to any person unless the offer or sale is made through an authorised person appropriately licensed by the CMA and: (a) the Certificates are offered or sold to a Sophisticated Investor (as defined in Article 9 of the Rules on the Offer of Securities and Continuing Obligations); (b) the price to be paid for the Certificates in any one transaction is equal to or exceeds Saudi Riyals 1 million or an equivalent amount; or (c) the offer of sale is otherwise in compliance with Article 15 of the Rules on the Offer of Securities and Continuing Obligations.

Kingdom of Bahrain

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold, and will not offer or sell, any Certificates, except on a private placement basis to persons in the Kingdom of Bahrain who are "accredited investors".

For this purpose, an "**accredited investor**" means:

(a) an individual holding financial assets (either singly or jointly with a spouse) of U.S.$1,000,000 or more excluding that person's principal place of residence;

(b) a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than U.S.$1,000,000; or

(c) a government, supranational organisation, central bank or other national monetary authority or a state organisation whose main activity is to invest in financial instruments (such as a state pension fund).

State of Qatar (including the Qatar Financial Centre)

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or delivered, and will not offer, sell or deliver, at any time, directly or indirectly, any Certificates in the State of Qatar (including the Qatar Financial Centre), except: (a) in compliance with all applicable laws and regulations of the State of Qatar (including the Qatar Financial Centre); and (b) through persons or corporate entities authorised and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in the State of Qatar. This Offering Circular has not been filed with, reviewed or approved by the Qatar Central Bank, the Qatar Financial Markets Authority, Qatar Financial Centre Regulatory Authority or any other relevant Qatar governmental body or securities exchange.

State of Kuwait

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Certificates to be issued have not been and will not be offered, sold, promoted or advertised by it in the State of Kuwait other than in compliance with Decree Law No. 31 of 1990 and the implementing regulations thereto, as amended, and Law No. 7 of 2010 and the by-laws thereto, as amended governing the issue, offering and sale of securities.

No private or public offering of the Certificates is being made in the State of Kuwait, and no agreement relating to the sale of the Certificates will be concluded in the State of Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the Certificates in the State of Kuwait.

Singapore

Each Dealer has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold any Certificates or caused such Certificates to be made the subject of an invitation for subscription or purchase and will not offer or sell any Certificates or cause the Certificates to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of any Certificates, whether directly or indirectly, to any person in Singapore other than: (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289 of Singapore) (as modified or amended from time to time, the "**SFA**")) pursuant to Section 274 of the SFA; (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Certificates are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)), the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Certificates pursuant to an offer made under Section 275 of the SFA, except:

(i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA; or

(ii) where no consideration is or will be given for the transfer; or

(iii) where the transfer is by operation of law; or

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Hong Kong

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Certificates other than: (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**") and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Certificates, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Certificates which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Malaysia

This Offering Circular has not been registered as a prospectus with the Securities Commission of Malaysia under the Capital Markets and Services Act 2007 of Malaysia (the "**CMSA**"). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Certificates have not been and will not be offered or sold, and no invitation to subscribe for or purchase any Certificates has been or will be made, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia, other than to persons falling within any one of the categories of persons specified under Schedule 6 or Section 229(1)(b) and Schedule 7 or Section 230(1)(b) and Schedule 8 or Section 257(3) of the CMSA, subject to any law, order, regulation or official directive of the Central Bank of Malaysia, the Securities Commission of Malaysia and/or any other regulatory authority from time to time.

Residents of Malaysia may be required to obtain relevant regulatory approvals, including approval from the Controller of Foreign Exchange to purchase the Certificates. The onus is on the Malaysian residents concerned to obtain such regulatory approvals, and none of the Dealers is responsible for any invitation, offer, sale or purchase of the Certificates as aforesaid without the necessary approvals being in place.

People's Republic of China

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Certificates are not being offered or sold, directly or indirectly, in the PRC (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by applicable laws of the PRC.

General

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that it will (to the best of its knowledge and belief) comply with all applicable securities laws, regulations and directives in force in any jurisdiction in which it purchases, offers, sells or delivers any Certificates or possesses or distributes this Offering Circular.

None of the Trustee, Riyad Bank, the Delegate and any of the Dealers represents that Certificates may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating any such sale. Persons into whose possession this Offering Circular or any Certificates may come must inform themselves about, and observe, any applicable restrictions on the distribution of this Offering Circular and the offering and sale of Certificates.

With regard to each Series, the relevant Dealer will be required to comply with any additional restrictions agreed between the Trustee, Riyad Bank and the relevant Dealer as set out in the relevant subscription agreement or dealer confirmation letter, as the case may be.

GENERAL INFORMATION

Authorisation

The establishment of the Programme and the issue of Certificates have been duly authorised by a resolution of the Board of Directors of the Trustee dated 6 February 2020. The Trustee has obtained all necessary consents, approvals and authorisations in the Cayman Islands in connection with the issue and performance of Certificates to be issued under the Programme and the execution and performance of the Transaction Documents to which it is a party. The entry by Riyad Bank into the Transaction Documents to which it is a party has been duly authorised by resolutions of the Board of Directors of Riyad Bank dated 30 July 2018.

Listing

Application has been made to the London Stock Exchange for Certificates issued under the Programme during the 12 months from the date of this Offering Circular to be admitted to trading on the ISM. The ISM is not a regulated market within the meaning of MiFID II. The ISM is a market designated for professional investors. Certificates admitted to trading on the ISM are not admitted to the Official List of the United Kingdom Listing Authority. The London Stock Exchange has not approved or verified the contents of this Offering Circular.

Certificates may also be issued on the basis that they will not be admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system or that they will be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed with the Trustee and Riyad Bank.

Documents Available

For the period of 12 months following the date of this Offering Circular, physical copies (and English translations where the documents in question are not in English) of the following documents will, when published, be available, during Normal business hours on any weekday (excluding Saturdays, Sundays and public holidays), for inspection at the specified office of each Paying Agent for the time being in London:

(a) the Transaction Documents, including each Supplemental Declaration of Trust and each Supplemental Purchase Contract in relation to each Series;

(b) the Memorandum and Articles of Association of the Trustee and the constitutional documents (with an English translation thereof) of Riyad Bank;

(c) the audited consolidated financial statements of Riyad Bank in respect of the two financial years ended 31 December 2018 and 31 December 2019 together with the audit reports prepared in connection therewith. Riyad Bank currently prepares audited consolidated accounts on an annual basis. The Trustee is not required to, and does not intend to, publish any annual financial statements;

(d) the most recently published unaudited interim condensed consolidated financial statements (if any) of Riyad Bank, together with any review reports prepared in connection therewith. Riyad Bank currently prepares unaudited interim condensed consolidated accounts on a quarterly basis. The Trustee is not required to, and does not intend to, publish any interim financial statements; and

(e) this Offering Circular together with any supplement or further Offering Circular.

The documents listed in (b) to (e) will also be available at www.riyadbank.com.

Clearing Systems

The Certificates have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche will be specified in the applicable Pricing Supplement.

If the Certificates are to clear through an additional or alternative clearing system, the appropriate information will be specified in the applicable Pricing Supplement.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels, and the address of Clearstream, Luxembourg is Clearstream Banking S.A., 42 Avenue JF Kennedy, L-1855 Luxembourg.

The Legal Entity Identifier

The Legal Entity Identifier code of the Trustee is 549300P8GI2KKEMZUH97.

Significant or Material Change

There has been no significant change in the financial or trading position of the Trustee and no material adverse change in the financial position or prospects of the Trustee, in each case, since the date of its incorporation.

There has been (i) no significant change in the financial or trading position of Riyad Bank and its subsidiaries, taken as a whole, since 31 December 2019 and (ii) no material adverse change in the financial position or prospects of Riyad Bank and its subsidiaries, taken as a whole, since 31 December 2019.

Litigation

The Trustee is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Trustee is aware) in the 12 months preceding the date of this Offering Circular which may have or have in such period had a significant effect on the financial position or profitability of the Trustee.

Neither Riyad Bank nor any of its Subsidiaries has been involved in any governmental, legal or arbitration proceedings (including any such proceedings that are pending or threatened of which Riyad Bank is aware) during the 12 months preceding the date of this Offering Circular that may have or have in such period had a significant effect on the financial position or profitability of Riyad Bank and/or its Subsidiaries, respectively.

Auditors

Since the date of its incorporation, no financial statements of the Trustee have been prepared. The Trustee is not required by Cayman Islands law, and does not intend, to publish audited financial statements or appoint any auditors.

The joint auditors of Riyad Bank are Ernst & Young & Co. (Certified Public Accountants) ("**EY**") and PricewaterhouseCoopers Public Accountants ("**PwC**"). EY and PwC were appointed as joint auditors of Riyad Bank in 2016 and 2015 respectively. The Financial Statements have been jointly audited by EY and PwC, as stated in their audit reports contained in this Offering Circular. The Joint Auditors are independent auditors regulated by and registered to practice as auditors with the Saudi Organization for Certified Public Accountants (SOCPA) in the Kingdom.

Dealers Transacting with Riyad Bank

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, Riyad Bank (and its affiliates) in the ordinary course of business for which they have received, and for which they may in the future receive, fees.

In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Trustee, Riyad Bank and their affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Trustee, Riyad Bank and their affiliates routinely hedge their credit exposure to the Trustee, Riyad Bank and their affiliates consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially any Certificates issued under the Programme. Any such short positions could adversely affect future trading prices of Certificates issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Shari'a Approvals

The transaction structure relating to the Certificates (as described in this Offering Circular) has been approved by the Riyad Bank Shari'ah Committee, the Shariah Supervisory Committee of Standard Chartered Bank and J.P. Morgan Securities plc's *Shari'a* advisers. Prospective Certificateholders should not rely on such approvals in deciding whether to make an investment in the Certificates and should consult their own Sharia advisers as to whether the proposed transaction described in such approvals is in compliance with their individual standards of compliance with *Shari'a* principles.

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Independent Auditors' Report
to the Shareholders of Riyad Bank (A Saudi Joint Stock Company)

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Riyad Bank (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

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

Independent Auditors' Report
to the Shareholders of Riyad Bank (A Saudi Joint Stock Company)

Report on the audit of the consolidated financial statements (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances At 31 December 2019, the gross loans and advances of the Group were Saudi Riyals 176.7 billion against which an impairment allowance of Saudi Riyals 2.8 billion was maintained. We considered impairment of loans and advances as a key audit matter as the determination of expected credit loss (ECL) involves signficant management judgement and this has a material impact on the consolidated financial statements of the Group. The key areas of judgement include: - Categorisation of loans into Stages 1, 2 and 3 based on the identification of: (a) exposures with a significant increase in credit risk ("SICR") since their origination (b) individually impaired / defaulted exposures - Assumptions used in the ECL model for determining probability of default (PD), loss given default (LGD) and exposure at default (EAD) including but not limited to assessment of financial condition of counterparty, expected future cash flows and forward looking macroeconomic factors. - The need to apply overlays to reflect current or future external factors that might not be captured by the expected credit loss model. - Disclosures relating to IFRS 9 and the related incremental disclosures of IFRS 7. ***Impairment of loans and advances*** *Refer to the note 2 (d) (i) which contains the disclosure of critical accounting judgements, estimates and assumptions relating to the impairment losses on financial assets and the impairment assessment methodology used by the Group, note 8 which contains the disclosure of impairment against loans and advances and note 30.3 for details of credit quality analysis and key assumptions and factors considered in determination of ECL.*	We obtained an understanding of management's process of assessment of the impairment of loans and advances as per IFRS 9 , the Group's internal rating model, impairment allowance policy and the ECL modelling methodology. We compared the Group's impairment allowance policy and ECL methodology with the requirements of IFRS 9. We assessed the design and implementation, and tested the operating effectiveness of the key controls over: - the modelling process, including governance over the monitoring of the model and approval of key assumptions; - the classification of borrowers into various stages and timely identification of SICR and determination of default / individually impaired exposures; and - the integrity of data inputs into the ECL model. We assessed the Group's criteria for the determination of SICR and identification of impaired / default exposures and their classification into various stages. For a sample of customers, we assessed: - the internal ratings determined by the management based on the Group's internal rating model and assessed these ratings were in line with the ratings used in the ECL model; - the staging as identified by management; and - management's computations for ECL. We assessed the reasonableness of underlying assumptions including forward looking assumptions used by the Group in the ECL model. Where management overlays were used, we assessed those overlays and the governance process around such overlays. We tested the completeness of data underlying the ECL calculations as of 31 December 2019. Where relevant, we involved specialists to assist us in the review of model calculations. We assessed the disclosures included in the consolidated financial statements.

Independent Auditors' Report
to the Shareholders of Riyad Bank (A Saudi Joint Stock Company)

Report on the audit of the consolidated financial statements (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Fees from banking services The Group charges administrative fees upfront to borrowers on loan financing. All such fees are an integral part of generating an involvement with the resulting financial instrument and therefore, all such fees should be considered in making an adjustment to the effective yield and income should be recognised using that adjusted effective yield and classified as special commission income. However, due to the large volume of transactions with mostly individually insignificant fee amounts, management uses certain assumptions and threshold in relation to the recognition of such fees and classifies them within "Fee and commission income, net". We considered this as a key audit matter since the use of management assumptions and threshold could result in material over / understatement of the Group's profitability. *Refer to the notes 3 (g) to the consolidated financial statements related to accounting policies for special commisssion income and note 2 (d) (v) which contains the disclosure of critical accounting judgements, estimates and assumptions relating to the fee income.*	We performed the following procedures: We evaluated the assumptions and judgments used by management for recognizing the administrative fees charged upfront to borrowers. We obtained the management's assessment of the impact of the use of assumptions and threshold and performed the following: - on a sample basis, traced the historical and current year data used by management in their assessment to the underlying accounting records; and - assessed the impact on the recognition of fee and commission income and special commission income.

Other Information included in the Bank's 2019 Annual Report

The Board of Directors of the Bank (the "Directors") are responsible for the other information. The other information consists of the information included in the Bank's 2019 annual report, other than the consolidated financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

Independent Auditors' Report
to the Shareholders of Riyad Bank (A Saudi Joint Stock Company)

Report on the audit of the consolidated financial statements (continued)

Other Information included in the Bank's 2019 Annual Report (continued)

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent Auditors' Report
to the Shareholders of Riyad Bank (A Saudi Joint Stock Company)

Report on the audit of the consolidated financial statements (continued)

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

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

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

Independent Auditors' Report
to the Shareholders of Riyad Bank (A Saudi Joint Stock Company)

Report on the audit of the consolidated financial statements (continued)

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

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

Report on other legal and regulatory requirements

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

Ernst & Young & Co.
(Certified Public Accountants)
P. O. Box 2732
Riyadh 11461
Kingdom of Saudi Arabia

Yousef A. AlMubarak
Certified Public Accountant
License No. 427

شركة ارنست ويونغ وشركاهم محاسبون قانونيون
ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45
ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS

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برايس وترهاوس كوبرز
محاسبون قانونيون
ترخيص رقم ٢٥
س.ت: ١٠١٠٣٧١٦٢٢
PRICEWATERHOUSECOOPERS
CERTIFIED PUBLIC ACCOUNTANTS
LICENSE NO. 25
C.R.1010371622

8 Jumada Al Alkhir 1441H
(2 February 2020)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2019 and 2018

	Note	2019 SAR'000	2018 SAR'000
ASSETS			
Cash and balances with SAMA	4	29,189,487	16,323,172
Due from banks and other financial institutions	5	4,734,888	11,029,176
Positive fair value of derivatives	6	608,847	286,625
Investments, net	7	53,361,415	47,992,772
Loans and advances, net	8	173,981,999	151,024,830
Investment in associates	9	702,882	595,493
Other real estate		233,057	227,405
Property and equipment, net	10	2,201,925	1,699,462
Other assets	11	774,378	720,641
Total assets		265,788,878	229,899,576
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	12	13,124,480	8,580,514
Negative fair value of derivatives	6	649,226	274,270
Customer deposits	13	194,517,899	169,822,156
Debt securities in issue	14	4,003,029	4,003,783
Other liabilities	15	12,922,782	10,444,637
Total liabilities		225,217,416	193,125,360
Shareholders' equity			
Share capital	16	30,000,000	30,000,000
Statutory reserve	17	6,502,130	5,101,613
Other reserves	18	1,027,108	58,047
Retained earnings		1,392,224	414,556
Proposed dividends	26	1,650,000	1,200,000
Total shareholders' equity		40,571,462	36,774,216
Total liabilities and shareholders' equity		265,788,878	229,899,576

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENT OF INCOME

For the years ended December 31, 2019 and 2018

	Note	2019 SAR'000	2018 SAR'000 (Restated)
Special commission income	20	10,371,426	8,332,365
Special commission expense	20	2,534,411	1,703,905
Net special commission income		7,837,015	6,628,460
Total fee and commission income	21	2,880,929	2,411,911
Total fee and commission expense	21	850,184	700,859
Fee and commission income, net		2,030,745	1,711,052
Exchange income, net		342,658	292,581
Trading income, net		132,806	104,560
Dividend income		102,866	57,533
Gains on disposal of non-trading investments, net	22	255,486	130,308
Other operating income	23	15,487	42,907
Total operating income, net		10,717,063	8,967,401
Salaries and employee-related expenses	24	1,879,017	1,765,185
Rent and premises-related expenses		200,189	327,607
Depreciation of property and equipment	10	438,976	296,901
Other general and administrative expenses		1,035,685	926,271
Other operating expenses		120,207	31,392
Total operating expenses before impairment charge		3,674,074	3,347,356
Impairment charge for credit losses and other financial assets, net	8 e)	1,012,284	927,840
Impairment (reversal) charge for investments, net		(48,028)	26,870
Total operating expenses, net		4,638,330	4,302,066
Net operating income		6,078,733	4,665,335
Share in earnings of associates, net	9	153,333	50,750
Net income for the year before zakat		6,232,066	4,716,085
Zakat for the year	3 a)	630,000	430,249
Zakat for the previous years	26	-	1,193,559
Total zakat		630,000	1,623,808
Net income for the year		5,602,066	3,092,277
Basic and diluted earnings per share (in SAR)	25	1.87	1.03

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the years ended December 31, 2019 and 2018

	2019 SAR'000	2018 SAR'000
Net income for the year	5,602,066	3,092,277
Other comprehensive income (OCI):		
a) Items that will be reclassified to consolidated statement of income in subsequent periods		
- Fair value through other comprehensive income (FVOCI- debt instruments)		
- Net change in fair value (note 18)	1,105,992	(579,105)
- Net amounts transferred to consolidated statement of income (note 18)	(235,604)	(109,563)
- Net changes in allowance for expected credit losses(ECL) of debt instruments (note 18)	(17,276)	19,801
b) Items that will not be reclassified to consolidated statement of income in subsequent periods		
- Actuarial (losses) /gains on defined benefit plans (note 27 b)	(149,515)	1,581
- Net change in fair value of equity instruments at fair value through other comprehensive income (FVOCI- equity instruments) (note 18)	251,583	101,200
Other comprehensive income for the year	955,180	(566,086)
Total comprehensive income for the year	6,557,246	2,526,191

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2019 and 2018

SAR'000	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	Total
December 31, 2019						
Balance at the beginning of the year	30,000,000	5,101,613	58,047	414,556	1,200,000	36,774,216
Total comprehensive income						
Net changes in fair values of						
- FVOCI -equity instruments	-	-	251,583	-	-	251,583
- FVOCI -debt instruments	-	-	1,105,992	-	-	1,105,992
Net amount reclassified to the consolidated statement of income for FVOCI -debt instruments	-	-	(235,604)	-	-	(235,604)
Net changes in allowance for expected credit losses on FVOCI -debt instruments	-	-	(17,276)	-	-	(17,276)
Actuarial losses (Note 27 (b))	-	-	(149,515)	-	-	(149,515)
Net income for the year after zakat	-	-	-	5,602,066	-	5,602,066
Total comprehensive income	-	-	955,180	5,602,066	-	6,557,246
Disposal of FVOCI-equity instruments (note 7 b))	-	-	13,881	(13,881)	-	-
Final dividends - 2018 (note 26)	-	-	-	-	(1,200,000)	(1,200,000)
Interim dividend - 2019 (note 26)	-	-	-	(1,560,000)	-	(1,560,000)
Transfer to statutory reserve (note 17)	-	1,400,517	-	(1,400,517)	-	-
Final proposed dividend - 2019 (note 26)	-	-	-	(1,650,000)	1,650,000	-
Balance at the end of the year	30,000,000	6,502,130	1,027,108	1,392,224	1,650,000	40,571,462
December 31, 2018						
Balance at the beginning of the year	30,000,000	3,922,592	686,865	2,873,536	1,140,000	38,622,993
Impact of adopting IFRS 9 at January 1, 2018	-	-	(116,478)	(2,008,490)	-	(2,124,968)
Restated balance at the beginning of the year	30,000,000	3,922,592	570,387	865,046	1,140,000	36,498,025
Total comprehensive income						
Net changes in fair values of						
- FVOCI -equity instruments	-	-	101,200	-	-	101,200
- FVOCI -debt instruments	-	-	(579,105)	-	-	(579,105)
Net amount reclassified to the consolidated statement of income for FVOCI -debt instruments	-	-	(109,563)	-	-	(109,563)
Net changes in allowance for expected credit losses on FVOCI -debt instruments	-	-	19,801	-	-	19,801
Actuarial gains (Note 27 (b))	-	-	1,581	-	-	1,581
Net income for the year after zakat	-	-	-	3,092,277	-	3,092,277
Total comprehensive income	-	-	(566,086)	3,092,277	-	2,526,191
Disposal of FVOCI-equity instruments (note 7 b))	-	-	53,746	(53,746)	-	-
Final dividends - 2017	-	-	-	-	(1,140,000)	(1,140,000)
Interim dividend - 2018 (note 26)	-	-	-	(1,110,000)	-	(1,110,000)
Transfer to statutory reserve (note 17)	-	1,179,021	-	(1,179,021)	-	-
Final proposed dividend - 2018 (note 26)	-	-	-	(1,200,000)	1,200,000	-
Balance at the end of the year	30,000,000	5,101,613	58,047	414,556	1,200,000	36,774,216

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31, 2019 and 2018

	Note	2019 SAR'000	2018 SAR'000
OPERATING ACTIVITIES			
Net income for the year before zakat		6,232,066	4,716,085
Adjustments to reconcile net income for the year to net cash from operating activities:			
Accretion of discounts and amortisation of premium, net on non-FVIS instruments, net		(113,104)	(53,358)
Gains on non-trading investments, net	22	(255,486)	(130,308)
Gains (loss) on trading investments, net		(21,569)	178
Dividend income		(102,866)	(57,533)
Depreciation of property and equipment	10	438,976	296,901
Share in earnings of associates, net		(153,333)	(50,750)
Impairment charge for investments, net		(48,028)	26,870
Impairment charge for credit losses and other provisions, net	8 e)	1,012,284	927,840
		6,988,940	5,675,925
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		(1,038,289)	(648,599)
Due from banks and other financial institutions maturing after three months from date of acquisition		499,845	2,459,615
Positive fair value of derivatives		(322,222)	(170,735)
Fair value through income statement (FVIS)		(619,607)	865,853
Loans and advances, net		(23,927,290)	(14,551,201)
Other real estate		(5,652)	7,714
Other assets		(102,298)	(190,632)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		4,543,966	1,524,346
Negative fair value of derivatives		374,956	196,347
Customer deposits		24,695,743	15,456,607
Other liabilities		2,008,446	691,051
Zakat paid		(905,404)	(661,542)
Net cash from operating activities		12,191,134	10,654,749
INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments not held as FVIS instruments		61,538,567	25,094,607
Purchase of investments not held as FVIS instruments		(64,609,430)	(27,966,717)
Purchase of property and equipment, net		(333,802)	(243,955)
Net cash used in investing activities		(3,404,665)	(3,116,065)
FINANCING ACTIVITIES			
Repayment of debt securities in issue		-	(4,000,000)
Dividend paid		(2,757,618)	(2,246,438)
Cash used in financing activities		(2,757,618)	(6,246,438)
Net increase in cash and cash equivalents		6,028,851	1,292,246
Cash and cash equivalents at beginning of the year		17,443,889	16,151,643
Cash and cash equivalents at end of the year	28	23,472,740	17,443,889
Special commission received during the year		10,372,322	8,156,702
Special commission paid during the year		2,433,950	1,667,443
Supplemental non-cash information			
Net changes in fair value and transfers to consolidated statement of income		1,121,971	(587,468)

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

1. GENERAL

Riyad Bank ("The Bank") is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia, formed pursuant to the Royal Decree and the Council of Ministers' Resolution No. 91 dated 1 Jumad Al-Awal 1377H (corresponding to November 23, 1957G). The Bank operates under commercial registration No. 1010001054 dated 25 Rabi Al-Thani 1377H (corresponding to November 18, 1957G) through its 341 (2018: 341) licensed branches in the Kingdom of Saudi Arabia, a branch in London-United Kingdom, an agency in Houston-United States, and a representative office in Singapore. The number of the Group's employees stood at 5,955 as at December 31, 2019 (2018: 5,973). The Bank's Head Office is located at the following address:

Granada Oasis - A1 Tower
Riyadh - Al Shuhada District
P.O. Box 22622
Riyadh 11416
Kingdom of Saudi Arabia

The objective of the Group is to provide a full range of banking and investment services. The Bank also provides to its customers, non-conventional banking products which are approved and supervised by an independent Shariah Board established by the Bank.

The consolidated financial statements comprise the financial statements of Riyad Bank and its wholly owned subsidiaries (the Bank and the subsidiaries are collectively referred to as "the Group"), a) Riyad Capital (engaged in investment services and asset management activities related to dealing, managing, arranging, advising and custody of securities regulated by the Capital Market Authority), b) Ithra Al-Riyad Real Estate Company (formed with the objective to hold, manage, sell and purchase real estate assets for owners or third parties for financing activities); c) Riyad Company for Insurance Agency (which acts as an agent for selling insurance products owned and managed by another principal insurance company), incorporated in the Kingdom of Saudi Arabia; d) Curzon Street Properties Limited incorporated in the Isle of Man; and e) Riyad Financial Markets incorporated in the Cayman Islands - a netting and bankruptcy jurisdiction country, to execute derivative transactions with international counterparties on behalf of Riyad Bank.

On December 24, 2018, the Board of Directors' passed resolution to enter into preliminary merger negotiations with the National Commercial Bank (NCB). On December 16, 2019, after considering the merger study discussions with NCB, the Board of directors of both the Banks agreed to end the merger discussions and study.

2. BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements of the Group have been prepared;

- in accordance with 'International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA"); and
- in compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and by-laws of the Bank.

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

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

Accordingly, the Group changed its accounting treatment for zakat and income tax by retrospectively adjusting the impact in line with International Accounting Standard 8 Accounting Policies, Changes in Accounting Estimates and Errors (as disclosed in note 3) and the effects of this change are disclosed in note 26 to the consolidated financial statements. The change in accounting policies due to this new standard and treatment of Zakat & Tax are disclosed in the Note 3.

2. BASIS OF PREPARATION (continued)

b) Basis of measurement and presentation

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives, FVIS and FVOCI investments. In addition, financial assets and liabilities that are carried at cost but are hedged in a fair value hedging relationship are carried at fair value to the extent of the risk being hedged.

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

c) Functional and presentation currency

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

d) Critical accounting judgements, estimates and assumptions

The preparation of the consolidated financial statements in conformity with IFRS, as endorsed in the KSA and other standards and pronouncements endorsed by SOCPA, requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. Such judgements, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

i) Impairment losses on financial assets

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

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

- The Group's internal credit grading model, which assigns PDs to the individual grades
- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime ECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulae and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models (note 30.3 (b) (v)).

2. BASIS OF PREPARATION (continued)

d) Critical accounting judgements, estimates and assumptions(continued)

ii) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions, that market participants would use, when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised at fair value in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2. BASIS OF PREPARATION (continued)

d) Critical accounting judgements, estimates and assumptions (continued)

iii) Determination of control over investees

Investment funds

The Group acts as Fund Manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the Fund (comprising any carried interests and expected management fees) and the investor's rights to remove the Fund Manager. As a result the Group has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated these funds.

Special Purpose Entities (SPEs)

The Group is party to certain SPEs, primarily to facilitate Shariah compliant financing arrangements. The exposures to these entities are included in the Group's loans and advances portfolio.

iv) Defined benefit scheme

The Group operates an End of service benefit scheme for its employees based on the prevailing Saudi Labor laws. The liability is being accrued based on projected unit credit method in accordance with the periodic actuarial valuation. For details of assumptions and estimate please refer note 27.

v) Fee income

The Group charges administrative fee upfront on borrowers, on loan financing. Due to large volume of transactions with mostly individually insignificant fee amounts, management uses certain assumptions and judgments in relation to the recognition of such fee which are recorded within 'fee and commission income, net'.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies (for both conventional and non-conventional banking) adopted in the preparation of these consolidated financial statements are set out below.

Changes in accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2018 except for the changes explained below.

Based on the adoption of new standards explained below, the accounting policies are applicable effective 1 January 2019 replacing / amending or adding to the corresponding accounting policies set out in 2018 annual consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

IFRS 16 'Leases'

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

IFRS 16 was issued in January 2016 and is effective for annual periods commencing on or after 1 January 2019. IFRS 16 stipulates that all leases and the associated contractual rights and obligations should generally be recognized in the Group's financial position, unless the term is 12 months or less or the lease for low value asset. Thus, the classification required under IAS 17 "Leases" into operating or finance leases is eliminated for Lessees. For each lease, the lessee 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 and which is amortized over the useful life.

The Group has opted for the modified retrospective application permitted by IFRS 16 upon adoption of the new standard. During the first time application of IFRS 16 to operating leases, the right to use the leased assets was generally measured at the amount of lease liability, using the interest rate at the time of first time application,.

RECONCILIATION OF LEASE LIABILITIES

SAR' 000	
Off-balance sheet lease obligations as of December 31, 2018	516,957
Current leases with a lease term of 12 months or less & low-value leases	(29,915)
Operating lease obligations as of January 1, 2019 (Gross undiscounted)	487,042
Operating lease obligations as of January 1, 2019 (net, discounted)	406,306
Lease liabilities due to initial application of IFRS 16 as January 1, 2019	406,306

SAR' 000	December 31, 2019	January 1, 2019
Less than one year	8,776	25,790
One to five years	339,760	240,503
More than five years	198,701	220,749
Total undiscounted lease liabilities	547,237	487,042

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Zakat & Income Tax

As mentioned above, the basis of preparation has been changed from the year ended 31 December 2019 as a result of the issuance of 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 instructions issued by SAMA dated 17 July 2019, the zakat is recognized in the statement of comprehensive 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 26 to the consolidated financial statements.

a) Classification of financial assets

On initial recognition, the Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

i) Financial Asset at amortised cost (AC)

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVIS:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI test).

ii) Financial Asset at FVOCI

Debt instrument : A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVIS:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Equity Instruments: On initial recognition, for an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. Equity instruments at FVOCI are not subject to an impairment assessment.

iii) Financial Asset at FVIS

Financial assets at FVIS comprise derivative instruments, quoted equity instruments held for trading and debt securities classified neither as AC nor FVOCI. In addition, on initial recognition, the Group may irrevocably designate a financial asset as FVIS, that otherwise meets the requirements to be measured at amortised cost or at FVOCI, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets are not reclassified subsequent to their initial recognition, except if the Group changes its business model for managing financial assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Classification of financial assets (continued)

The details of business model assessment and SPPI test are explained below.

Business model assessment

The Group assesses the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

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

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

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

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

As a second step of its classification process the Group assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money- e.g. periodical reset of interest rates.

Designation at Fair value through income statement(FVIS)

At initial recognition, the Group has designated certain financial assets at FVIS. Before 1 January 2018, the Group also designated certain financial assets as at FVIS because the assets were managed, evaluated and reported internally on a fair value basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Classification of financial liabilities

All money market deposits, customer deposits, term loans, subordinated debts and other debt securities in issue are initially recognised at fair value less transaction costs. Financial liabilities at FVIS are recognised initially at fair value and transaction costs are taken directly to the statement of income. Subsequently all commission-bearing financial liabilities other than those held at FVIS or where fair values have been hedged are measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium. Premiums are amortised and discounts accreted on an effective yield basis to maturity and taken to special commission expense.

c) Derecognition

i) - Financial assets

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

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

From January 1, 2018, any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognized as a separate asset or liability.

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

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

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

ii) -Financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Modifications of financial assets and financial liabilities

i) Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized with the difference recognized as a de-recognition gain or loss and a new financial asset is recognized at fair value.

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

ii) Financial liabilities

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

e) Impairment

The Group recognizes loss allowances for ECL on the following financial instruments that are not measured at FVIS:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Impairment (continued)

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

12 month ECL is the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL

ECL is a probability-weighted estimate of credit losses. They are measured as follows:

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

Restructured financial assets

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

- If the expected restructuring will not result in derecognition of the existing asset, and then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

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

Evidence that a financial asset is credit-impaired includes the following observable data:

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

A loan that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Impairment (continued)

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors.

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

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

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

Write-off

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Financial guarantees and loan commitments

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

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

The Group has issued no loan commitments that are measured at FVIS. For other loan commitments:the Group recognizes loss allowance based on the ECL requirement..

g) Revenue / expenses recognition

Special commission income and expenses

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Revenue / expenses recognition (continued)

Measurement of amortized cost and special commission income

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

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

h) Rendering of services

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

The Group has concluded that revenue from rendering of various services related to share trading and fund management, trade finance, corporate finance and advisory and other banking services, should be recognized at the point when services are rendered i.e. when performance obligation is satisfied.

i) Customer Loyalty Program

The Group offers customer loyalty program (reward points herein referred to as "Hassad points"), which allows its customers to earn points that can be redeemed for certain partner outlets. The Group allocates a portion of transaction price (interchange fee) to the Hassad points awarded to its customers, based on the relative standalone selling price. The amount of revenue allocated to Hassad points is deferred and released to the consolidated statement of income when reward points are redeemed. The cumulative amount of contract liability related to unredeemed Hassad points is adjusted over time based on actual experience and current trends with respect to redemption.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Basis of consolidation

These consolidated financial statements comprise the financial statements of Riyad Bank and its subsidiaries drawn up to December 31, each year. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies.

Investment funds

The Group acts as Fund Manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the Fund (comprising any carried interests and expected management fees) and the investors' rights to remove the Fund Manager. As a result the Group has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated any of these funds.

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

Balances between the Group and its subsidiaries, and any income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

Generally, there is a presumption that a majority of voting rights results in control. However, under individual circumstances, the Group may still exercise control with less than 50% shareholding or may not be able to exercise control even with ownership over 50% of an entity's shares. When assessing whether it has power over an investee and therefore controls the variability of its returns, the Group considers all relevant facts and circumstances, including:

- The purpose and design of the investee
- The relevant activities and how decisions about those activities are made and whether the Group can direct those activities
- Contractual arrangements such as call rights, put rights and liquidation rights
- Whether the Group is exposed, or has rights, to variable returns from its involvement with the investee, and has the power to affect the variability of such returns

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest (NCI) and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value at the date of loss of control.

The Group is party to certain special purpose entities (SPEs), primarily for the purpose of facilitation of certain Shariah compliant financing arrangements. The Group concluded that these entities cannot be consolidated in its financial statements as it could not establish control over these SPEs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Investment in associates

Investments in associates are carried in the consolidated statement of financial position at cost, plus post-acquisition changes in the Group's share of net assets of the associate, less any impairment in the value of individual investments. Investments in associates are initially recognized at cost and subsequently accounted for under the equity method of accounting. An associate is an entity in which the Group holds significant influence (but not control), over financial and operating policies and which is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The Group's share of its associates' post-acquisition profits or losses are recognized in the consolidated statement of income, and its share of post-acquisition movements in other comprehensive income is recognized in reserves. Distribution received from the investee reduces the carrying amount of the investment. Under the equity method of accounting, the investment in the associate is carried on the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. The Group's share of profit of an associate is shown on the face of the consolidated statement of income.

l) Derivative financial instruments and hedge accounting

As permitted by IFRS 9, the Group has elected to continue to apply the hedge accounting requirements of IAS 39.

Derivative financial instruments, including foreign exchange contracts, special commission rate swaps and currency options (both written and purchased), are initially recognised at fair value on the date on which the derivative contract is entered into, with transaction costs recognised in the consolidated statement of income and, are subsequently re-measured at fair value. All derivatives are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models and pricing models, as appropriate. The treatment of changes in their fair value depends on their classification into the following categories:

i) Derivatives held for trading

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to the consolidated statement of income and disclosed in trading income/ loss. Derivatives held for trading also include those derivatives, which do not qualify for hedge accounting described below.

ii) Hedge accounting

The Group designates certain derivatives as hedging instruments in qualifying hedging relationships.

For the purpose of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the reported net gain or loss; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability, or to a highly probable forecasted transaction that will affect the reported net gain or loss.

In order to qualify for hedge accounting, the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At the inception of the hedge, the risk management objective and strategy is documented, including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Group will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Derivative financial instruments and hedge accounting (continued)

(ii) Hedge accounting (continued)

(a) Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect the consolidated statement of income, any gain or loss from re-measuring the hedging instruments to fair value is recognised immediately in the consolidated statement of income. The related portion of the hedged item is adjusted against the carrying amount of the hedged item and recognised in the consolidated statement of income. For hedged items measured at amortised cost, where the fair value hedge of a special commission bearing financial instrument ceases to meet the criteria for hedge accounting or is sold, exercised or terminated, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the effective yield basis. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated statement of income.

(b) Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of a variability of cash flows attributable to a particular risk associated with a recognised asset or a liability or a highly probable forecasted transaction that could affect consolidated statement of income, the portion of the gain or loss on the hedging instrument that is determined to be an effective portion is recognised directly in other comprehensive income and the ineffective portion, if any, is immediately recognised in the consolidated statement of income. For cash flow hedges affecting future transactions, the gains or losses recognised in other reserves, are transferred to the consolidated statement of income in the same period in which the hedged transaction affects the consolidated statement of income. Where the hedged forecasted transaction results in the recognition of a non- financial asset or a non-financial liability, then at the time such asset or liability is recognised the associated gains or losses that had previously been recognised directly in other comprehensive income are included in the initial measurement of the acquisition cost or other carrying amount of such asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting, or the forecast transaction is no longer expected to occur or the Group revokes the designation. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognised in other comprehensive income is retained until the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to the consolidated statement of income for the period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Foreign currencies

The Group's consolidated financial statements are presented in Saudi Arabian Riyals, which is also the Group's functional currency. Transactions in foreign currencies are translated into Saudi Arabian Riyals at spot exchange rates prevailing on the transaction dates. Monetary assets and liabilities at the year-end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the reporting date. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income. Non-monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value is determined. Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment either in the consolidated statement of income or in equity, depending on the recognition of the fair value movement of the underlying financial asset.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the dates of the initial transactions.

The assets and liabilities of overseas branch are translated at the spot exchange rate at the reporting date. The income and expenses of overseas branch are translated at the average exchange rates for the year. All exchange differences, if significant, are recognised in other comprehensive income. These differences are transferred to consolidated statement of income at the time of disposal of foreign operations.

n) Offsetting financial instruments

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position when the Group has a legal currently enforceable right to set off the recognised amounts and when the Group intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expenses are not offset in the consolidated statement of income unless required or permitted by an accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Revenue recognition

i) Fee and commission income

Fee and commissions are recognised when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred, together with the related direct cost, and are recognised as an adjustment to the effective yield on the loan. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportionate basis. Fee received on asset management, wealth management, financial planning, custody services and other similar services that are provided over an extended period of time, are recognised over the period when the service is being provided.

ii) Others

Dividend income is recognised when the Group's right to receive payment is established. Results arising from trading activities include gains and losses from changes in fair value and related special commission income or expense for financial assets and financial liabilities held for trading.

p) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership and are measured in accordance with related accounting policies for investments held as FVIS, FVOCI, and held at amortised cost. The counterparty liability for amounts received under these agreements is included in "Due to banks and other financial institutions" or "Customer deposits", as appropriate. The difference between sale and repurchase prices is treated as special commission expense and is accrued over the life of the repo agreement on an effective special commission rate basis. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos), are not recognised in the consolidated statement of financial position, as the Group does not obtain control over the assets.

Amounts paid under these agreements are included in "Cash and balances with SAMA" or "Due from banks and other financial institutions" as appropriate. The difference between purchase and resale prices is treated as special commission income and accrued over the life of the reverse repo agreement on an effective yield basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Other real estate

The Group, in the ordinary course of business, acquires certain real estate against settlement of due loans and advances. Such real estate properties are considered as assets held for sale and are initially stated at the lower of net realisable value of due loans and advances or the current fair value of the related properties, less any costs to sell, if material. Rental income from other real estate is recognised in the consolidated statement of income. No depreciation is charged on such real estate.

Subsequent to initial recognition, any subsequent write down to fair value, less costs to sell, is charged to the consolidated statement of income. Any subsequent gain in the fair value less costs to sell of these assets to the extent this does not exceed the cumulative write down is recognised as income together with any gain/ loss on disposal.

r) Property and equipment

Property and equipment are stated at cost and presented net of accumulated depreciation. Freehold land is not depreciated. The cost of other property and equipment is depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	33 years
Improvements and decoration of premises	over the lower of the lease period or 5 years
Furniture, fixtures and equipment	5 to 20 years
Computer hardware	5 years
Software programs and automation projects	3 to 5 years
Motor vehicles	4 years

Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. All assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Any carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in consolidated statement of income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

s) Guarantee contracts

In ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to the initial recognition, the Group's liability under each guarantee is measured at the higher of the unamortised premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees. Any increase in the liability relating to the financial guarantee is taken to the consolidated statement of income in 'impairment charge for credit losses'. The premium received is recognised in the consolidated statement of income in 'Fee and commission income, net' on a straight line basis over the life of the guarantee.

t) Provisions

Provisions are recognised when a reliable estimate can be made by the Group for a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation.

u) Accounting for leases

Leases entered into by the Group as a lessee, are operating leases. Payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

v) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents are defined as those amounts included in cash, balances with SAMA excluding statutory deposits, and due from banks and other financial institutions maturing within three months from the date of acquisition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

w) End of service benefits

Benefits payable to the employees of the Group at the end of their services are accrued in accordance with the guidelines set by the Saudi Arabian Labor Regulations or other applicable laws in other jurisdictions, and are included in other liabilities in the consolidated statement of financial position.

x) 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 statement of income. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to zakat.

The basis of preparation has been changed as a result of the issuance of instructions from SAMA dated 17 July 2019. Previously, zakat and income tax were 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 and income tax shall be recognized in the statement of income. The Group has accounted for this change in the accounting for zakat and income tax retrospectively (see note 3) and the effects of the above change are disclosed in note 26 to the consolidated financial statements. The change has resulted in reduction of reported income of the Group for the year ended 31 December 2018 by SAR 1,624 million. This comprises of SAR 430.2 million zakat for year-ended 31 December 2018 and SAR 1,193.6 million representing settlement for years till 2017. The change has had no impact on the statement of cash flows for the year ended 31 December 2018.

y) Investment management services

The Group offers investment services to its customers, which include management of certain investment funds. Fees earned are disclosed under related party transactions. Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly, are not included in the consolidated financial statements.

z) Non-conventional banking products

In addition to the conventional banking, the Group offers its customers certain non-conventional banking products, which are approved by its Shariah Board. These products include Murabaha, Tawaruq and Ijara.

i) Murabaha is an agreement whereby the Group sells to a customer a commodity or an asset, which the Group has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin.

ii) Ijarah is a an agreement whereby the Group, acting as a lessor, purchases or constructs an asset for lease according to the customer request (lessee), based on his promise to lease the asset for an agreed rent and specific period that could end by transferring the ownership of the leased asset to the lessee.

iii) Tawaruq is a form of Murabaha transactions where the Group purchases a commodity and sells it to the customer. The customer sells the underlying commodity at spot and uses the proceeds for his financing requirements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

aa) Short term employee benefits

Short term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short term cash bonus plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by employees and the obligation can be estimated reliably.

ab) Settlement date accounting

All regular way purchases and sales of financial assets are recognised and derecognised on the settlement date, i.e. the date the asset is delivered to the counter party. The Group accounts for any change in fair value between the trade and the settlement date in the same way as it accounts for the acquired assets. Regular way purchases or sales are purchases or sales of financial instruments that require delivery of assets within the time frame generally established by regulation or convention in the market place.

4. CASH AND BALANCES WITH SAMA

	2019 SAR'000	2018 SAR'000
Cash in hand	4,916,642	5,212,780
Statutory deposit	9,626,700	8,588,411
Reverse repos with SAMA	14,628,798	2,459,863
Other balances	17,347	62,118
Total	29,189,487	16,323,172

In accordance with the Banking Control Law and regulations issued by SAMA, the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, savings, time and other deposits, calculated at the end of each month. The statutory deposit with SAMA is not available to finance the Bank's day-to-day operations and therefore is not part of cash and cash equivalents (note 28).

The allowance for expected credit losses(ECLs), in respect of the above, amounted to SAR 0.202 million as on December 31, 2019 (December 31, 2018: SAR 0.137 million). The ECL allowance relate to stage 1 exposures.

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2019 SAR'000	2018 SAR'000
Current accounts	958,966	1,983,429
Money market placements	3,775,922	9,045,747
Total	4,734,888	11,029,176

The allowance for expected credit losses(ECLs) in respect of the above, amounted to SAR 0.54 million as on December 31, 2019(December 31, 2018: SAR 5.2 million). The ECL allowance relates to stage 1 exposures.

6. DERIVATIVES

In the ordinary course of business, the Group utilises the following derivative financial instruments for both trading and hedging purposes:

a) Swaps

Swaps are commitments to exchange one set of cash flows for another. For special commission rate swaps, counterparties generally exchange fixed and floating special commission rate payments in a single currency without exchanging principal. For currency swaps, principal, fixed and floating commission payments are exchanged in different currencies.

b) Forwards and futures

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and special commission rate futures are transacted in standardised amounts on regulated exchanges and changes in futures contract values are settled on daily basis.

c) Options

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at a fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price.

Held for trading purposes

Most of the Group's derivative trading activities relate to sales, positioning and arbitrage. 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. Arbitrage involves identifying pricing anomalies in different markets and products, with the expectation of profiting from price differentials between markets or products.

Held for hedging purposes

The Group has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange rates and special commission rates to reduce its exposure to currency and special commission rate risks to acceptable levels as determined by the Board of Directors within the guidelines issued by SAMA. The Board of Directors has established levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors has also established the level of special commission rate risk by setting limits on special commission rate gaps for stipulated periods. Asset and liability special commission rate gaps are reviewed on a periodic basis and if required hedging strategies are used to reduce special commission rate gap within the established limits.

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to adjust its own exposure to currency and special commission rate risks. This can be achieved by hedging specific transactions as well as strategic hedging against overall consolidated statement of financial position exposure.

6. DERIVATIVES (continued)

Held for hedging purposes (continued)

Fair value hedges

The Group uses special commission rate swaps to hedge against the special commission rate risk arising from specifically identified fixed special commission rate exposures.

Cash flow hedges

The Group is exposed to variability in future special commission cash flows on non-trading assets and liabilities which bear special commission rate at a variable rate. The Group uses special commission rate swaps as cash flow hedges of these special commission rate risks.

The table below shows the positive and negative fair values of derivative financial instruments held, together with their notional amounts, analysed by the term to maturity and monthly average. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year end, do not reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Group's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor market risk.

				Notional amounts by term to maturity				
2019 SAR'000	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Special commission rate swaps	513,761	(427,453)	40,316,114	4,471,190	10,044,002	23,593,510	2,207,412	38,646,106
Forward foreign exchange contracts	95,086	(21,762)	29,886,020	23,969,845	3,575,365	2,340,810	-	27,877,541
Held as fair value hedges:								
Special commission rate swaps	-	(200,011)	3,169,439	153,075	467,730	2,120,244	428,390	3,169,439
Total	608,847	(649,226)	73,371,573	28,594,110	14,087,097	28,054,564	2,635,802	69,693,086

6. DERIVATIVES (continued)

2018 SAR'000	Positive fair value	Negative fair value	Notional amount total	Notional amounts by term to maturity: Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Special commission rate swaps	239,364	(167,805)	31,853,110	2,526,398	7,339,354	20,428,597	1,558,761	20,498,184
Forward foreign exchange contracts	46,053	(51,631)	27,248,377	21,046,531	4,248,967	1,952,879	-	20,691,540
Currency options	1,184	(1,184)	476,362	473,103	3,259	-	-	1,602,607
Held as fair value hedges:								
Special commission rate swaps	24	(53,650)	3,428,279	147,444	450,523	2,070,143	760,169	1,261,980
Total	286,625	(274,270)	63,006,128	24,193,476	12,042,103	24,451,619	2,318,930	44,054,311

The table below shows a summary of hedged items, the nature of the risk being hedged, the hedging instrument and its fair value as at December 31, 2019 and 2018.

2019 SAR '000 Description of hedged items	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
Fixed special commission rate investments and loans	3,536,296	3,336,267	Fair value	Special commission rate swaps	-	(200,011)

2018 SAR '000 Description of	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
Fixed special commission rate deposits	3,675,675	3,622,683	Fair value	Special commission rate swaps	24	(53,650)

7. INVESTMENTS, NET

a) Investment securities are classified as follows:

	2019 SAR'000	2018 SAR'000
Investment at FVIS	1,038,918	393,272
Investment at amortised cost	32,154,904	32,917,341
Investments at FVOCI – Debt instruments	17,131,969	12,730,942
Investments at FVOCI – Equity investments	3,088,985	2,035,385
Less: Allowance	(53,361)	(84,168)
Total	53,361,415	47,992,772

b) Equity investment securities designated as at FVOCI

The Group designated certain investments shown in the following table as equity securities at FVOCI. The FVOCI designation was made because the investments are expected to be held for strategic purposes.

	Fair value as at December 31, 2019 SAR'000	Fair value as at December 31, 2018 SAR'000	Dividend income recognised during 2019 SAR'000	Dividend income recognised during 2018 SAR'000
Saudi (Tadawul listed) equities	2,140,816	1,363,474	93,080	48,064
Other Saudi equities	371,948	354,627	-	-
Foreign equities	536,220	277,228	2,616	5,640
Total	3,048,984	1,995,329	95,696	53,704

During 2019, the Group sold shares in its Saudi (Tadawul listed) equities having a fair value of SAR 324 million (SAR 643.9 million during 2018) and the loss amounting to SAR 13.9 million (2018: loss amounting to SAR 53.7 million) was transferred to retained earnings. The above sales were carried out as part of tactical adjustment of the portfolio to enhance value.

7. INVESTMENTS, NET (continued)

c) Investments by type of securities

SAR'000	Domestic		International		Total	
	2019	2018	2019	2018	2019	2018
Fixed rate securities	22,652,319	20,958,135	17,887,519	13,849,448	40,539,838	34,807,583
Floating rate securities	7,914,418	9,439,677	832,617	1,401,023	8,747,035	10,840,700
Equities	2,513,364	1,719,250	575,621	316,135	3,088,985	2,035,385
Others	1,038,918	392,484	-	788	1,038,918	393,272
Total investments	34,119,019	32,509,546	19,295,757	15,567,394	53,414,776	48,076,940
Less: Allowance	(9,700)	(36,972)	(43,661)	(47,196)	(53,361)	(84,168)
Total	34,109,319	32,472,574	19,252,096	15,520,198	53,361,415	47,992,772

The impairment allowance on debt instruments at FVOCI amounts to SAR 57.8 million (2018: SAR 75.1 million).

Above investments include sukuks amounting to SAR 15.14 billion (2018: SAR 14.2 billion).

International investments above includes investment portfolios of SAR 1.8 billion (2018: SAR 6.4 billion) which are externally managed.

d) An analysis of changes in loss allowance for debt instruments carried at amortised cost, is as follows:

The loss allowance as on December 31, 2019 amounted to SAR 13.4 million (December 31, 2018: SAR 44.1 million) and these relate to stage 1 exposures.

7. INVESTMENTS, NET (continued)

e) The analysis of the composition of investments is as follows:

SAR '000	2019 Quoted	2019 Unquoted*	2019 Total	2018 Quoted	2018 Unquoted*	2018 Total
Fixed rate securities	18,418,030	22,121,808	40,539,838	15,566,369	19,241,214	34,807,583
Floating rate securities	2,064,940	6,682,095	8,747,035	2,515,192	8,325,508	10,840,700
Equities	2,656,262	432,723	3,088,985	1,706,453	328,932	2,035,385
Others	1,038,918	-	1,038,918	393,272	-	393,272
Total investments	24,178,150	29,236,626	53,414,776	20,181,286	27,895,654	48,076,940
Less: Allowance	(6,309)	(47,052)	(53,361)	(20,360)	(63,808)	(84,168)
Investments, net	24,171,841	29,189,574	53,361,415	20,160,926	27,831,846	47,992,772

*Unquoted securities include Saudi Government Treasury Bills and bonds of SAR 24.6 billion (2018: SAR 21.9 billion)

f) The analysis of investments by counter-party is as follows:

	2019 SAR '000	2018 SAR '000
Government and quasi Government	29,325,148	28,414,499
Corporate	14,845,500	10,163,384
Banks and other financial institutions	9,190,767	9,414,889
Total	53,361,415	47,992,772

Investments include SAR 11,664 million (2018: SAR 683.6 million), which have been pledged under repurchase agreements with customers (note 19 d)). The market value of such investments is SAR 12,116 million (2018: SAR 687 million).

8. LOANS AND ADVANCES, NET

a) These comprise the following:

2019 SAR'000	Overdrafts	Credit cards	Consumer loans*	Commercial loans	Others	Total
Performing loans and advances	6,778,704	798,484	55,951,555	111,157,478	497,510	175,183,731
Non-performing loans and advances	95,536	-	377,950	1,078,062	2,586	1,554,134
Total loans and advances	6,874,240	798,484	56,329,505	112,235,540	500,096	176,737,865
Allowance for impairment	(110,945)	(37,971)	(937,524)	(1,667,204)	(2,222)	(2,755,866)
Total	6,763,295	760,513	55,391,981	110,568,336	497,874	173,981,999

2018 SAR'000	Overdrafts	Credit cards	Consumer loans*	Commercial loans	Others	Total
Performing loans and advances	6,006,142	775,403	45,029,627	99,728,737	282,013	151,821,922
Non-performing loans and advances	62,817	-	243,387	1,255,233	-	1,561,437
Total loans and advances	6,068,959	775,403	45,273,014	100,983,970	282,013	153,383,359
Allowance for impairment	(71,928)	(44,456)	(923,783)	(1,317,739)	(623)	(2,358,529)
Total	5,997,031	730,947	44,349,231	99,666,231	281,390	151,024,830

Loans and advances, net, include non-conventional banking products of SAR 105.9 billion (2018: SAR 87.0 billion). As at December 2019, the non-conventional banking products gross portfolio mainly comprises of Tawarooq amounting to SAR 72.1 billion (2018: SAR 59.4 billion), Ijarah amounting to SAR 21.4 billion (2018: SAR 21.7 billion) and Murabaha amounting to SAR 13.6 billion (2018: SAR 7.2 billion) and the expected credit loss allowance on the portfolio was SAR 1.65 billion (2018: SAR 1.63 billion). During 2019, the special commission income on the portfolio amounted to SAR 5.4 billion (2018: SAR 4.0 billion).

* Includes consumer mortgage loans

b) An analysis of changes in loss allowance for total loans and advances is, as follows:

ECL on total loans and advances (SAR'000)

	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2019	301,461	667,541	1,389,527	2,358,529
Transfer to 12-month ECL	153,611	(70,327)	(83,284)	-
Transfer to lifetime ECL - not credit impaired	(10,480)	60,611	(50,131)	-
Transfer to lifetime ECL - credit impaired	(4,096)	(141,785)	145,881	-
Net re-measurement of loss allowance**	9,261	(6,832)	394,908	397,337
Balance as at December 31, 2019	449,757	509,208	1,796,901	2,755,866

	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2018	367,358	662,765	2,480,865	3,510,988
Transfer to 12-month ECL	99,420	(6,470)	(92,950)	-
Transfer to lifetime ECL - not credit impaired	(32,700)	45,320	(12,620)	-
Transfer to lifetime ECL - credit impaired	(5,527)	(67,392)	72,919	-
Net re-measurement of loss allowance**	(127,090)	33,318	(1,058,687)	(1,152,459)
Balance as at December 31, 2018	301,461	667,541	1,389,527	2,358,529

** Includes charge-offs (consumer loans and credit cards) and write-offs (commercial, overdrafts and others).

8. LOANS AND ADVANCES, NET (continued)

b) An analysis of changes in loss allowance for Loans and Advances (continued)

ECL on credit cards (SAR'000)

	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2019	14,012	4,679	25,765	44,456
Transfer to 12-month ECL	5,134	(597)	(4,537)	-
Transfer to lifetime ECL - not credit Impaired	(545)	3,400	(2,855)	-
Transfer to lifetime ECL - credit Impaired	(412)	(2,240)	2,652	-
Net re-measurement of loss allowance including charge-offs	(9,907)	(1,731)	5,153	(6,485)
Balance as at December 31, 2019	8,282	3,511	26,178	37,971

	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2018	22,806	5,283	23,263	51,352
Transfer to 12-month ECL	1,557	(337)	(1,220)	-
Transfer to lifetime ECL - not credit Impaired	(787)	1,035	(248)	-
Transfer to lifetime ECL - credit Impaired	(548)	(1,949)	2,497	-
Net re-measurement of loss allowance including charge-offs	(9,016)	647	1,473	(6,896)
Balance as at December 31, 2018	14,012	4,679	25,765	44,456

ECL on consumer loans*(SAR'000)

	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2019	167,976	259,031	496,776	923,783
Transfer to 12-month ECL	104,540	(54,644)	(49,896)	-
Transfer to lifetime ECL - not credit Impaired	(8,624)	55,602	(46,978)	-
Transfer to lifetime ECL - credit Impaired	(2,716)	(56,549)	59,265	-
Net re-measurement of loss allowance including charge-offs	(43,182)	(110,106)	167,029	13,741
Balance as at December 31, 2019	217,994	93,334	626,196	937,524

	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2018	176,565	227,768	323,998	728,331
Transfer to 12-month ECL	10,585	(3,396)	(7,189)	-
Transfer to lifetime ECL - not credit Impaired	(10,720)	14,021	(3,301)	-
Transfer to lifetime ECL - credit Impaired	(3,544)	(60,512)	64,056	-
Net re-measurement of loss allowance including charge-offs	(4,910)	81,150	119,212	195,452
Balance as at December 31, 2018	167,976	259,031	496,776	923,783

Movement in expected credit losses is mainly due to the increase in portfolo of consumer loans by gross amount of 11 billion. Further re-measurement of expected credit losses on consumer loans due to model related changes resuled in net decrease of ECL by SAR 312 million.

* Includes consumer mortgage loans

8. LOANS AND ADVANCES, NET (continued)

b) An analysis of changes in loss allowance for Loans and Advances (continued)

ECL on Commercial loans** (SAR'000)

	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2019	119,473	403,831	866,986	1,390,290
Transfer to 12-month ECL	43,937	(15,086)	(28,851)	-
Transfer to lifetime ECL - not credit Impaired	(1,311)	1,609	(298)	-
Transfer to lifetime ECL - credit Impaired	(968)	(82,996)	83,964	-
Net re-measurement of loss allowance	62,350	105,005	999,242	1,166,597
Write-offs	-	-	(776,516)	(776,516)
Balance as at December 31, 2019	223,481	412,363	1,144,527	1,780,371

Movement in expected credit losses is mainly due to the increase in portfolo of commercial loans and overdrafts by gross amount of SAR 12.2 billion. Further re-measurement of ECL on written-off facilities during the year amounted to SAR 474.4 million.

	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2018	167,987	429,714	2,133,604	2,731,305
Transfer to 12-month ECL	87,278	(2,737)	(84,541)	-
Transfer to lifetime ECL - not credit Impaired	(21,193)	30,264	(9,071)	-
Transfer to lifetime ECL - credit Impaired	(1,435)	(4,931)	6,366	-
Net re-measurement of loss allowance	(113,164)	(48,479)	954,645	793,002
Write-offs	-	-	(2,134,017)	(2,134,017)
Balance as at December 31, 2018	119,473	403,831	866,986	1,390,290

** Includes overdrafts and others

8. LOANS AND ADVANCES, NET (continued)

c) Movement in allowance for impairment of credit losses

	2019
	SAR'000
Balance at the beginning of the year	2,358,529
Provided during the year, net	1,173,853
Bad debts written off against provision	(776,516)
Balance at the end of the year	2,755,866

	2018
	SAR'000
Closing loss allowance as at December 31, 2017 (calculated under IAS 39)	2,084,926
Amounts restated through opening retained earnings	1,426,062
Opening loss allowance as at January 1, 2018 (calculated under IFRS 9)	3,510,988
Provided during the year, net	981,558
Bad debts written off against provision	(2,134,017)
Balance at the end of the year	2,358,529

d) Impairment charge for financing losses in the consolidated statement of income represents:

	2019	2018
	SAR'000	SAR'000
Charge for the year, net*	1,424,202	1,372,947
Recovery of written off loans and advances, net	(454,007)	(434,242)
Allowance for impairment, net	970,195	938,705

* Includes net charge offs

e) Impairment charges for credit losses and other provisions, net as reflected in the statement of income are detailed as follows:

	2019	2018
	SAR'000	SAR'000
Impairment charge for credit losses, net	970,195	938,705
Impairment charge (reversal) for other financial assets, net	42,089	(10,865)
Total	1,012,284	927,840

9. INVESTMENT IN ASSOCIATES

Investment in associates represents the Group's share of investment in entities where the Group has significant influence. These investments are accounted for using the equity method of accounting. Investment in associates represents:

a) 48.46% (2018: 35%) share ownership in Ajil Financial Services Company incorporated in Kingdom of Saudi Arabia. The objectives of the Company are to engage in financing activities including leasing (and other related products) of projects in the industrial, transportation, agriculture, trading sectors and other skilled professions along with finance leasing of fixed and moveable assets.

During the year, the Group increased its holding in Ajil Financial Services Company to 48.46 % (31 December 2018: 35%). Cash consideration of SAR 33.7 million was paid for the additional stake. In the absence of control, the addtional investment has been accounted for using the equity method in the consolidated financial statements. Gains on the above transaction amounting to SAR 103.7 million has been included in share of earnings in associates, net

b) 21.4 % (2018: 21.4%) share in ownership in Royal and Sun Alliance Insurance (Middle East) Limited E.C., incorporated in Bahrain, engaged in insurance and re-insurance business and

c) 30.6% (2018: 30.6%) share ownership, (including indirect) and Board representation in Al-Alamiya for Cooperative Insurance Company incorporated in Kingdom of Saudi Arabia. The activities of the company are to transact cooperative insurance and re-insurance operations and all related activities as per applicable laws and regulations in the Kingdom.

10. PROPERTY AND EQUIPMENT, NET

SAR' 000	Land and buildings	Improvements and decoration of premises	Furniture, fixtures and equipment	Computer hardware, software programs and automation projects	Motor vehicles	Total
Cost						
Balance as at January 1, 2018	1,448,228	914,198	477,553	2,783,857	992	5,624,828
Additions	-	26,146	20,740	196,948	545	244,379
Disposals	(310)	(3,425)	(4,664)	(133,690)	(118)	(142,207)
Balance as at December 31, 2018	1,447,918	936,919	493,629	2,847,115	1,419	5,727,000
Additions	691,916	60,734	46,213	217,437	696	1,016,996
Disposals	(80,269)	(1,771)	(5,713)	(1,200)	-	(88,953)
Balance at December 31, 2019	2,059,565	995,882	534,129	3,063,352	2,115	6,655,043
Accumulated depreciation and amortisation						
Balance as at January 1, 2018	532,987	793,172	411,851	2,133,510	900	3,872,420
Charge for the year	21,672	42,969	27,184	204,925	151	296,901
Disposals	-	(3,425)	(4,628)	(133,612)	(118)	(141,783)
Balance as at December 31, 2018	554,659	832,716	434,407	2,204,823	933	4,027,538
Charge for the year	157,560	40,750	22,640	217,171	855	438,976
Disposals	(5,106)	(1,771)	(5,321)	(1,198)	-	(13,396)
Balance at December 31, 2019	707,113	871,695	451,726	2,420,796	1,788	4,453,118
Net book value						
As at January 1, 2018	915,241	121,026	65,702	650,347	92	1,752,408
As at December 31, 2018	893,259	104,203	59,222	642,292	486	1,699,462
As at December 31, 2019	1,352,452	124,187	82,403	642,556	327	2,201,925

Improvements and decoration of premises include work in progress amounting to SAR 5.5 million as at December 31, 2019 (2018: SAR 0.8 million).

Land and buildings balance as at January 1, 2019, include Right-of-Use (RoU) assets amounting to SAR 687.9 million, which was recognised upon implementation of IFRS 16. Depreciation and interest expense on these assets during 2019 amounted to SAR 135.9 million and SAR 17.1 million, respectively. Rights on contracts amounting to SAR 80.3 million (accumulated depreciation SAR 5.1 million), expired during the year. The balance of the RoU assets amounted to SAR 476.8 million as at 31 December 2019. Refer note 3 for details on the corresponding lease liabilities.

11. OTHER ASSETS

	2019 SAR'000	2018 SAR'000
Accounts receivable	430,429	348,506
Others*	343,949	372,135
Total	774,378	720,641

* Mainly include prepayments and sundry debtors and settlement accounts of SAR 77.1 million (2018: SAR 180.3 million) and items in transit amounting to SAR 263.6 million (2018: SAR 177.0 million), which are cleared in the normal course of business.

12. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2019 SAR'000	2018 SAR'000
Current accounts	851,791	832,905
Money market deposits	12,272,689	7,747,609
Total	13,124,480	8,580,514

Money market deposits include deposits against sales of fixed rate bonds of SAR 10,891 million (2018: SAR 684.3 million) with agreement to repurchase the same at fixed future dates.

13. CUSTOMER DEPOSITS

	2019 SAR'000	2018 SAR'000
Demand	93,707,806	86,842,195
Saving	525,605	459,724
Time	80,114,743	66,304,252
Others	20,169,745	16,215,985
Total	194,517,899	169,822,156

Time deposits also include non-conventional banking deposits of SAR 31,450 million (2018: SAR 31,190 million). The special commission expense on the portfolio for 2019 amounted to SAR 801 million (2018: SAR 523 million). Other customers' deposits include SAR 3,099 million (2018: SAR 2,738 million) of margins held for irrevocable commitments.

The above include foreign currency deposits as follows:

	2019 SAR'000	2018 SAR'000
Demand	3,829,760	4,048,138
Saving	13,833	12,547
Time	18,996,369	20,165,422
Other	499,577	325,742
Total	23,339,539	24,551,849

14. DEBT SECURITIES IN ISSUE

During June 2015, the Bank issued SAR 4,000 million Subordinated debt (Sukuk). These are SAR denominated and have maturity date of June 24, 2025 and are callable after 5 years, subject to the terms and conditions of the agreement. The sukuks carry a special commission rate of 6 month SAIBOR plus 115 basis points.

During November 2018, the Bank settled the Senior debt (Sukuk) of SAR 4,000 million issued in November 2013 .This settlement has been done in line with the early settlement option to repay the sukuk after 5 years from issuance date, subject to prior approval of SAMA and terms and conditions of the agreement.

15. OTHER LIABILITIES

	2019 SAR'000	2018 SAR'000
Accounts payable	822,483	716,417
Others*	12,100,299	9,728,220
Total	12,922,782	10,444,637

* Mainly include provision for zakat and tax of SAR 2,531 million (2018: SAR 2,806 million), end of service benefits of SAR 908 million (2018 : SAR 717 million) based on actuarial calculations(note 27 b)), insurance payable, accrued expenses, income received in advance and items in transit which are cleared in the normal course of business.

16. SHARE CAPITAL

The authorised, issued and fully-paid share capital of the Bank consist of 3,000 million shares of SAR 10 each (2018: 3,000 million shares of SAR 10 each).

17. STATUTORY RESERVE

In accordance with Saudi Arabian Banking Control Law and the Bank's By-Laws, a minimum of 25% of the annual net income is required to be transferred to the statutory reserve until this reserve equals to the paid up capital of the Bank. Accordingly, SAR 1,400.5 million has been transferred from 2019 net income (2018: SAR 1,179.0 million). The statutory reserve is not currently available for distribution.

18. OTHER RESERVES*

2019 (SAR 000s)	FVOCI debt	FVOCI equity	Total
Balance at beginning of the year	(434,099)	490,565	56,466
Net change in fair value of FVOCI investments	1,105,992	251,583	1,357,575
Net amounts relating to FVOCI-debt investments transferred to consolidated statement of income	(235,604)	-	(235,604)
Net ECL movement during the year	(17,276)	-	(17,276)
Net disposals during the year	-	13,881	13,881
Balance at end of the year	419,013	756,029	1,175,042

2018 (SAR 000s)	FVOCI debt	FVOCI equity	Total
Balance at beginning of the year	179,485	507,380	686,865
Impact of implementation of IFRS 9	55,283	(171,761)	(116,478)
Net change in fair value of FVOCI investments	(579,105)	101,200	(477,905)
Net amounts relating to FVOCI-debt investments transferred to consolidated statement of income	(109,563)	-	(109,563)
Net ECL movement during the year	19,801	-	19,801
Net disposals during the year	-	53,746	53,746
Balance at end of the year	(434,099)	490,565	56,466

** Does not include actuarial loss on defined benefit plan of SAR 147.9 million (2018: gain of SAR 1.58 million).*

19. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

As at December 31, 2019, there were legal proceedings of a routine nature outstanding against the Group. No provision has been made as management and in-house legal adviser believes that it is unlikely that any significant loss will arise.

b) Capital commitments

As at December 31, 2019 the Group had capital commitments of SAR 246.4 million (2018: SAR 178.3 million). This includes computer hardware, software, automation projects, construction and equipment purchases.

c) Credit related commitments and contingencies

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantee and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. Documentary letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are generally collateralised by the underlying shipments of goods to which they relate, and therefore have significantly less risk.

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be presented before being reimbursed by the customers.

Commitments to extend credit represent the unused portion of authorizations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire or terminate without being funded.

19. COMMITMENTS AND CONTINGENCIES (continued)

c) Credit related commitments and contingencies (continued)

i) **The contractual maturity structure for the Group's commitments and contingencies are as follows:**

2019 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	4,374,295	4,125,413	698,111	-	9,197,819
Letters of guarantee *	14,898,743	27,225,872	18,660,176	762,147	61,546,938
Acceptances	1,566,581	823,008	26,736	285	2,416,610
Irrevocable commitments to extend credit	2,291,067	1,733,792	5,739,262	2,572,421	12,336,542
Total	23,130,686	33,908,085	25,124,285	3,334,853	85,497,909

2018 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	4,394,052	3,399,272	325,657	-	8,118,981
Letters of guarantee *	17,175,558	30,614,563	15,853,614	757,247	64,400,982
Acceptances	1,329,468	447,421	51,908	-	1,828,797
Irrevocable commitments to extend credit	187,629	1,862,547	8,243,469	1,332,301	11,625,946
Total	23,086,707	36,323,803	24,474,648	2,089,548	85,974,706

* This is as per contractual period of the guarantee and in event of default may be payable on demand and therefore current in nature .

The outstanding unused portion of non-firm commitments as at December 31,2019 which can be revoked unilaterally at any time by the Group, amounts to SAR 92,891 million (2018: SAR 97,192 million).

ii) An analysis of changes in loss allowance for credit related commitments and contingencies are, as follows:

SAR'000	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2019	32,821	34,827	93,381	161,029
Transfer to 12-month ECL	16,731	(14,532)	(2,199)	-
Transfer to lifetime ECL - not Credit Impaired	(416)	6,888	(6,472)	-
Transfer to lifetime ECL - Credit Impaired	(37)	(10,013)	10,050	-
Net re-measurement of loss allowance	401	(2,811)	58,524	56,114
Transfer to write-off reserves	-	-	(24,358)	(24,358)
Balance as at December 31, 2019	49,500	14,359	128,926	192,785

SAR'000	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2018	51,789	104,502	497,618	653,909
Transfer to 12-month ECL	6,718	(737)	(5,981)	-
Transfer to lifetime ECL - not Credit Impaired	(7,313)	10,369	(3,056)	-
Transfer to lifetime ECL - Credit Impaired	(116)	(43,026)	43,142	-
Net re-measurement of loss allowance	(18,257)	(36,281)	73,753	19,215
Transfer to write-off reserves	-	-	(512,095)	(512,095)
Balance as at December 31, 2018	32,821	34,827	93,381	161,029

As at December 31, 2019, the balance in the write-off reserves amounted to SAR 603 million (December 31, 2018: SAR 594 million).

19. COMMITMENTS AND CONTINGENCIES (continued)

c) Credit related commitments and contingencies (continued)

iii) The analysis of commitments and contingencies by counterparty is as follows:

	2019 SAR'000	2018 SAR'000
Government and quasi government	-	-
Corporate	66,605,044	67,468,753
Banks and other financial institutions	18,892,865	18,505,953
Total	85,497,909	85,974,706

d) Assets pledged

Assets pledged as collateral with customers are as follows:

	2019		2018	
	Assets SAR'000	Related liabilities SAR'000	Assets SAR'000	Related liabilities SAR'000
Investments held at amortised cost and FVOCI (note 7 f) and 12)	12,115,699	10,891,186	683,599	684,277

These transactions are conducted under the terms that are usual and customary to standard lending and securities borrowing and lending activities.

20. SPECIAL COMMISSION INCOME AND EXPENSE

		2019	2018
Special commission income on:		SAR'000	SAR'000
Investments	- FVIS	-	11,805
	- FVOCI	624,587	437,340
	- Amortised cost	999,496	841,049
		1,624,083	1,290,194
Due from banks and other financial institutions		256,777	146,713
Loans and advances		8,490,566	6,895,458
Total		10,371,426	8,332,365

	2019	2018
	SAR'000	SAR'000
Special commission expense on:		
Due to banks and other financial institutions	417,087	209,255
Customer deposits	1,952,622	1,248,209
Debt securities in issue	164,702	246,441
Total	2,534,411	1,703,905

21. FEE AND COMMISSION INCOME, NET

	2019	2018
	SAR'000	SAR'000
Fee and commission income on:		
- Share brokerage and fund management	460,426	323,464
- Trade finance	599,826	596,781
- Credit facilities and advisory	901,583	641,278
- Card products	767,946	707,002
- Other banking services	151,148	143,386
Total fee and commission income	2,880,929	2,411,911
Fee and commission expense on:		
- Banking cards	615,936	513,162
- Share brokerage	50,169	49,080
- Other banking services	184,079	138,617
Total fee and commission expense	850,184	700,859
Fee and commission income, net	2,030,745	1,711,052

22. GAINS ON DISPOSAL OF NON-TRADING INVESTMENTS, NET

	2019 SAR'000	2018 SAR'000
FVOCI	243,827	123,468
Amortised Cost	11,659	6,840
Total	255,486	130,308

23. OTHER OPERATING INCOME

Other operating income for 2019, includes gain on disposals of property and equipment amounting to SAR 0.19 million (2018: SAR 25.7 million) and gains on disposals of other real estate acquired in settlement of due loans and advances, amounting to SAR 4.43 million (2018: nil).

24. SALARIES AND EMPLOYEE-RELATED EXPENSES

The following table summarises the Group's employee categories defined in accordance with SAMA's rules on compensation practices and includes the total amounts of fixed and variable compensation paid to employees during the years ended December 31, 2019 and 2018, and the forms of such payments.

Categories SAR 000	Number of employees		Fixed compensation		Variable compensation		Total compensation	
	2019	2018	2019	2018	2019	2018	2019	2018
Senior executives requiring SAMA no objection	19	15	29,549	28,007	10,112	12,712	39,661	40,719
Employees engaged in risk taking activities	344	355	104,584	100,923	31,434	25,370	136,018	126,293
Employees engaged in control functions	411	411	91,715	90,710	13,699	12,321	105,414	103,031
Outsourced employees	514	381	36,476	23,212	-	-	36,476	23,212
Other employees	4,667	4,811	794,607	753,061	93,064	106,338	887,671	859,399
Total	5,955	5,973	1,056,931	995,913	148,309	156,741	1,205,240	1,152,654

	2019	2018
Variable compensation accrued during the year and other employee related benefits*	822,086	769,272
Total salaries and employee-related expenses as per consolidated statement of income	1,879,017	1,765,185

*Other employee benefits include; insurance, pension, relocation expenses, recruitment expenses, training and development and other employee benefits.

The Group's compensation policy is based on the nature of the job, market practices and a jobholder's level of involvement in risk taking process. This policy applies to all employees, including the executive management team, and aims to link individual performance to the Group's overall achievements and financial soundness. Compensation includes fixed and variable components. Salary revision, performance bonus and other performance-linked incentives are decided based on the outcome of the Group's performance management process, as well as the Group's financial performance and the attainment of strategic goals.

24. SALARIES AND EMPLOYEE-RELATED EXPENSES (continued)

The Board of Directors has the responsibility to approve and oversee the Group's compensation and incentives policy. The Board Nomination and Compensation Committee is composed of five non-executive Directors (comprising of three Board Directors and two independent external members) and is charged with overseeing the compensation system design and effectiveness on behalf of the Board of Directors. In addition, the Nomination and Compensation Committee is accountable for reviewing and approving the Group's compensation and incentives policy and undertaking its periodic assessment and update so as to ensure achievement of the system objectives and to reinforce the Group's risk management framework. Fixed compensation comprises salaries and wages and other benefits and allowances. Variable compensation includes sales incentives, product-related rewards and performance-related payments.

The Group has adopted fixed and variable compensation schemes. For senior managers and material risk takers, the variable component is vested over a period of 3 years and is aligned with the jobholder's level of responsibility, Group and individual performance and the level of risk inherent in the relevant job function. This is based on an annual review conducted by the Nomination and Compensation Committee. The Group consistently evaluates its compensation policies against both industry norms and international best practice and makes necessary revisions as and when required.

25. EARNINGS PER SHARE

Basic and diluted earnings per share for the years ended December 31, 2019 and 2018 are calculated by dividing the net income for the year by 3,000 million shares.

26. DIVIDENDS AND ZAKAT

The dividends for 2019 amounted to SAR 3,210 million (2018: SAR 2,310 million), resulting in a dividend to the shareholders of SAR 1.07 per share (2018: SAR 0.77 per share). The total dividends for 2019 include interim dividends of SAR 1,560 million paid for the first half of 2019 (2018: SAR 1,110 million). The Board of Directors approved interim dividend which was ratified and announced on 7 July 2019, resulting in dividends of SAR 0.52 per share (2018: SAR 0.37 per share) to the shareholders.

Final dividends of SAR 1,650 million (2018: SAR 1,200 million) have been proposed for 2019. On 19 March 2019, the shareholders in the Ordinary General Assembly meeting approved the distribution of the final dividends for 2018 amounting to SAR 1,200 million to shareholders and the distribution date for the dividend was 2 April 2019.

26. DIVIDENDS AND ZAKAT (continued)

During 2018, the Group reached an agreement with the General Authority of Zakat and Tax (GAZT) on the settlement of zakat claims for previous financial years up to the end of the fiscal financial year 2017, against payment of an amount of SAR 2,970 million. As per the settlement agreement, the Group was required to settle 20% of the agreed zakat liability in 2018, and the remaining amount to be settled over a period of five years. Accordingly the Group has recorded zakat for the previous years and until the end of financial year 2017, through its retained earnings amounting to SAR 753.6 million. This was in addition to SAR 440 million accrued during first half of 2018. As a result of the settlement agreement the Group agreed to withdraw all of the previous appeals which were filed with the competent authority with respect to zakat.

On 14 March 2019, Saudi Arabia's General Authority of Zakat and Tax (the "GAZT") had published rules for computation of zakat for companies engaged in financing activities (the "Rules") and licensed by SAMA. The Rules are issued pursuant to the zakat Implementing Regulations and are applicable for the periods from 1 January 2019. In addition to providing a new basis for calculating the Zakat base, the Rules have also introduced a minimum floor at 4 times the net income and a maximum cap at 8 times the net income when determining the Zakat base. Zakat liability for the shareholders will continue to be calculated at 2.5% of the Zakat base but it will not fall below the minimum floor nor would exceed the maximum cap as prescribed by the Rules.
Accordingly based on the new regulations, the Bank has estimated provision for zakat liability for the year ended 31 December 2019 at SAR 630 million (31 December 2018: SAR 1,624 million of which SAR 430 million pertains to year 2018).

The change in the accounting treatment for zakat (as explained in note 3) has the following impacts on the line items of statements of income, statement of financial position and changes in shareholders' equity as at and for the year ended 31 December 2018:

Amount in SAR 000s	Financial statement impacted	As previously reported for the year ended 31 December 2018	Effect of restatement	As restated for for the year ended 31 December 2018
Provision for zakat and income (retained earnings)	Statement of changes in equity	1,623,808	(1,623,808)	-
Zakat	Statement of income	-	1,623,808	1,623,808
Earnings per share (SAR)	Statement of income	1.57	(0.54)	1.03

27. DEFINED BENEFIT PLAN

a) General description

The Group operates an End of Service Benefit Scheme for its employees based on the prevailing Saudi Labor Laws. The liability in respect of the scheme is estimated by a qualified external actuary in accordance with International Accounting Standard 19 - Employee Benefits, and using “Projected Unit Credit Method”.

b) The movement in the obligation during the year based on its present value are as follows:

	2019 SAR'000	2018 SAR'000
Defined benefit obligation at the beginning of the year	717,103	699,325
Current service cost	75,366	67,646
Interest cost	35,389	29,731
Benefits paid	(69,315)	(78,018)
Actuarial loss / (gain) recognised in other comprehensive income	149,515	(1,581)
Defined benefit obligation at the end of the year	908,058	717,103

The end of service liability is disclosed within "other liabilities" in the consolidated statement of financial position

c) Charge for the year

	2019 SAR'000	2018 SAR'000
Current service cost	75,366	67,646
Interest on defined benefit obligations	35,389	29,731
	110,755	97,377

27. DEFINED BENEFIT PLAN (continued)

d) Re-measurement recognised in Other comprehensive income

	2019 SAR'000	2018 SAR'000
Gain from change in experience assumptions	2,536	(697)
Actuarial gains due to change in demographic assumptions	(16,300)	(884)
Loss from change in financial assumptions	163,279	-
	149,515	(1,581)

e) The principal actuarial assumptions (in respect of the employee benefit scheme) used for the valuation as at December 31, 2019 and 2018 are as follows:

	2019	2018
Discount rate per annum	2.9%	4.5%
Expected rate of salary increase per annum	4.5%	4.0%
Normal retirement age	60	60

Assumptions regarding future mortality are set based on actuarial advice in accordance with the published statistics and experience in the region.

f) Sensitivity of actuarial assumptions

The table below illustrates the sensitivity of the Defined Benefit Obligation valuation as at December 31, 2019 and 2018 to the discount rate of 2.9% (2018: 4.5%) and salary escalation rate 4.5% (2018: 4.0%)

2019	Impact on defined benefit obligation increase / (decrease)		
	Change in assumption	Increase in assumption	Decrease in assumption
		SAR'000	SAR'000
Discount rate	0.50%	(44,512)	48,229
Expected rate of salary increase	0.50%	47,245	(44,076)

2018	Impact on defined benefit obligation – increase / (decrease)		
	Change in assumption	Increase in assumption	Decrease in assumption
		SAR'000	SAR'000
Discount rate	0.50%	(36,239)	42,501
Expected rate of salary increase	0.50%	42,291	(36,718)

The above sensitivity analyses are based on a change in an assumption holding all other assumptions constant.

28. CASH AND CASH EQUIVALENTS

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

	2019 SAR'000	2018 SAR'000
Cash and balances with SAMA excluding statutory deposit (note 4)	19,562,787	7,734,761
Due from banks and other financial institutions maturing within three months from the date of acquisition	3,909,953	9,709,128
Total	23,472,740	17,443,889

29. OPERATING SEGMENTS

The Group determines and presents operating segments based on the information that is provided internally to the chief operating decision maker, in order to allocate resources to the segments and to assess its performance. The operating segments are managed separately based on the Group's management and internal reporting structure. The Group's primary business is conducted in the Kingdom of Saudi Arabia with one international branch, a representative office and an agency. However, the total assets, liabilities, commitments and results of operations of this branch, representative office and agency are not material to the Group's consolidated financial statements and as a result have not been separately disclosed. The transactions between the Group's operating segments are recorded as per the Group's transfer pricing system. There are no other material items of income or expenses between the operating segments.

The Group's reportable segments under IFRS 8 are as follows:

Retail banking

Deposits, credit and investment products for individuals and small to medium sized businesses.

Investment banking and brokerage

Investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities.

Corporate banking

Principally handling corporate customers' current accounts, deposits and providing loans, overdrafts and other credit facilities and derivative products.

Treasury and investments

Principally providing money market, trading and treasury services as well as the management of the Group's investment portfolios.

29. OPERATING SEGMENTS (continued)

a) The **Group's** total assets and liabilities as at December 31, its total operating income and expense and its net income, for the years then ended by operating segments, are as follows:

2019 SAR'000	Retail banking	Investment banking and brokerage	Corporate banking	Treasury and investments	Total
Total assets	71,292,636	1,572,694	122,370,875	70,552,673	265,788,878
Total liabilities	87,456,194	460,331	105,297,654	32,003,237	225,217,416
Total operating income, net including	3,898,044	587,302	4,062,047	2,169,670	10,717,063
- Inter segment income (expenses)	795,190	139,891	(949,438)	14,357	-
- Net special commission income	3,493,973	140,534	2,867,685	1,334,823	7,837,015
- Fee and commission income, net	424,103	411,976	1,182,181	12,485	2,030,745
Total operating expenses, net including	2,341,755	218,671	2,005,505	72,399	4,638,330
- Depreciation of property and equipment	343,334	18,344	66,272	11,026	438,976
- Impairment charge for credit losses and other financial assets, net	(85,435)	-	1,102,315	(4,596)	1,012,284
- Impairment charge for investments, net	-	-	-	(48,028)	(48,028)
Share in earnings of associates, net	-	-	-	153,333	153,333
Net income before zakat	1,556,289	368,631	2,056,542	2,250,604	6,232,066

2018 SAR'000	Retail banking	Investment banking and brokerage	Corporate banking	Treasury and investments	Total
Total assets	56,293,608	1,135,210	110,221,419	62,249,339	229,899,576
Total liabilities	80,948,660	259,540	96,683,322	15,233,838	193,125,360
Total operating income, net including	3,197,392	379,825	3,576,043	1,814,141	8,967,401
- Inter segment income (expenses)	702,672	95,039	(1,030,785)	233,074	-
- Net special commission income	2,831,214	95,118	2,477,671	1,224,457	6,628,460
- Fee and commission income, net	362,252	266,617	1,077,117	5,066	1,711,052
Total operating expenses, net including	2,382,915	154,662	1,618,686	145,803	4,302,066
- Depreciation of property and equipment	217,725	8,806	56,084	14,286	296,901
- Impairment charge for credit losses and other financial assets, net	161,502	-	768,687	(2,349)	927,840
- Impairment charge for investments, net	-	-	-	26,870	26,870
Share in earnings of associates, net	-	-	-	50,750	50,750
Net income before zakat	814,477	225,163	1,957,357	1,719,088	4,716,085

b) **The Group's credit exposure by operating segment is as follows:**

2019 SAR'000	Retail banking	Investment banking and brokerage	Corporate banking	Treasury and investments	Total
Consolidated statement of financial position assets	69,292,126	465,740	122,014,454	67,829,710	259,602,030
Commitments and contingencies	-	-	54,875,398	-	54,875,398
Derivatives	-	-	-	2,560,041	2,560,041

2018 SAR'000	Retail banking	Investment banking and brokerage	Corporate banking	Treasury and investments	Total
Consolidated statement of financial position assets	55,394,517	705,088	110,045,615	59,236,667	225,381,887
Commitments and contingencies	-	-	55,682,946	-	55,682,946
Derivatives	-	-	-	1,673,863	1,673,863

Credit exposure comprises the carrying value of consolidated statement of financial position assets excluding equity investments, investment in associates, property and equipment, other real estate. The credit equivalent value of commitments, contingencies and derivatives, according to SAMA's prescribed methodology are included in credit exposure.

30. FINANCIAL RISK MANAGEMENT

30.1 CREDIT RISK

Credit exposures arise principally in lending activities (for both conventional and non-conventional banking products) that lead to loans and advances, and investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The Group uses internal credit rating tools to assess credit standing of its counterparties and assigns credit ratings accordingly. Also the Group uses the external ratings, of the major rating agency, where applicable. A potential credit loss might arise due to lack of proper credit analysis of the borrower's credit worthiness, inability to service the debt, lack of appropriate documentation, etc.

The Group attempts to control credit risk by the deployment of Risk Acceptance Criteria (RAC's) as credit risk screening tools, appropriate credit structuring, credit review process, post-disbursal monitoring of credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Group's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are monitored daily. In addition to monitoring credit limits, the Group manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate

The Group's credit risk for derivatives, represents the potential cost to replace the derivative contracts if counterparties fail to fulfil their obligation, and to control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Concentration Risk refers to the risk from an uneven distribution of counterparties in credit or in other business relationship or from concentration in business sectors or geographical regions. Accordingly, Concentration risk in the credit portfolios comes into existence through a skewed distribution of financing to (a) individual borrower (name concentration) (b) industry /economic sector (sector concentration) and (c) geographical regions (regional concentration). Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting any particular category of concentration.

The Group seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business. It also takes security when appropriate. The Group also seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Management monitors the market value of collateral recurrently, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. The Group regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practice.

The credit quality of the Group's financial assets and letters of credit, letters of guarantee and acceptances is disclosed in note 30.3 a). The debt securities included in the investment portfolio are mostly sovereign risk. Analysis of investments by counterparty is provided in note 7. For details of the composition of loans and advances refer to note 8. Information on credit risk relating to derivative instruments is provided in note 6 and for commitments and contingencies in note 19. The Group's maximum credit exposure, which best represents its maximum exposure to credit risk at the end of the reporting period, without taking account of any collateral held or other credit enhancements, is not materially different than the credit exposure by business segment given in note 29.b). The Group's consolidated Risk Weighted Assets (RWA) calculated under the Basel III framework is also provided in note 35.

30. FINANCIAL RISK MANAGEMENT (continued)

30.2 GEOGRAPHICAL CONCENTRATION

a) The distribution by geographical region for major categories of assets, liabilities, commitments and contingencies and credit exposure accounts is as follows:

2019 SAR'000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Assets								
Cash and balances with SAMA	29,189,473	-	14	-	-	-	-	29,189,487
Cash in hand	4,916,628	-	14	-	-	-	-	4,916,642
Balances with SAMA	24,272,845	-	-	-	-	-	-	24,272,845
Due from banks and other financial institutions	2,028,239	1,040,121	1,076,209	499,759	-	6,926	83,634	4,734,888
Current accounts	150,836	118,901	98,910	499,759	-	6,926	83,634	958,966
Money market	1,877,403	921,220	977,299	-	-	-	-	3,775,922
Positive fair value of derivatives	376,643	19,417	207,418	5,139	-	-	230	608,847
Investments, net	34,109,319	2,088,402	4,543,109	8,893,244	384,582	1,040,100	2,302,659	53,361,415
FVIS	1,038,918	-	-	-	-	-	-	1,038,918
FVOCI	2,512,765	915,684	4,543,109	8,893,244	384,582	1,040,100	1,891,469	20,180,953
Amortised cost	30,557,636	1,172,718	-	-	-	-	411,190	32,141,544
Investment in associates	502,655	200,227	-	-	-	-	-	702,882
Loans and advances, net	169,354,108	4,289,854	68,841	175,430	-	93,766	-	173,981,999
Overdraft	6,763,295	-	-	-	-	-	-	6,763,295
Credit cards	760,513	-	-	-	-	-	-	760,513
Consumer loans	55,391,981	-	-	-	-	-	-	55,391,981
Commercial loans	105,940,445	4,289,854	68,841	175,430	-	93,766	-	110,568,336
Others	497,874	-	-	-	-	-	-	497,874
Other assets	774,378	-	-	-	-	-	-	774,378
Accounts receivable and others	774,378	-	-	-	-	-	-	774,378
Total	236,334,815	7,638,021	5,895,591	9,573,572	384,582	1,140,792	2,386,523	263,353,896
Liabilities								
Due to banks and other financial institutions	24,685	3,271,775	9,016,995	273,405	-	44,882	492,738	13,124,480
Current accounts	23,491	280,932	458,484	39,094	-	7,208	42,582	851,791
Money market deposits	1,194	2,990,843	8,558,511	234,311	-	37,674	450,156	12,272,689
Negative fair value of derivatives	106,063	19,067	446,963	76,923	-	-	210	649,226
Customer deposits	193,530,568	-	987,331	-	-	-	-	194,517,899
Demand	93,389,475	-	318,331	-	-	-	-	93,707,806
Saving	525,605	-	-	-	-	-	-	525,605
Time	79,445,743	-	669,000	-	-	-	-	80,114,743
Other	20,169,745	-	-	-	-	-	-	20,169,745
Debt securities in issue	4,003,029	-	-	-	-	-	-	4,003,029
Other liabilities	12,893,204	-	20,006	9,491	-	81	-	12,922,782
Accounts payable and others	12,893,204	-	20,006	9,491	-	81	-	12,922,782
Total	210,557,549	3,290,842	10,471,295	359,819	-	44,963	492,948	225,217,416

30. FINANCIAL RISK MANAGEMENT (continued)

30.2 GEOGRAPHICAL CONCENTRATION (continued)

2019 SAR'000	Kingdom of Saudi Arabia	Other GCC and Middle	Europe	North America	Latin America	South East Asia	Other countries	Total
Commitments and contingencies	60,471,836	1,709,305	10,001,675	8,965,345	371	2,048,852	2,300,525	85,497,909
Letters of credit	8,710,575	297,199	61,990	2,104	371	73,122	52,458	9,197,819
Letters of guarantee	41,348,138	652,730	9,938,582	5,449,647	-	1,973,945	2,183,896	61,546,938
Acceptances	2,390,696	16,997	1,039	1,922	-	1,785	4,171	2,416,610
Irrevocable commitments	8,022,427	742,379	64	3,511,672	-	-	60,000	12,336,542
Maximum credit exposure (stated at credit equivalent amounts according to SAMA's prescribed methodology)								
Derivatives	1,200,123	215,488	938,293	168,405	-	-	37,732	2,560,041
Held for trading	1,200,123	215,488	768,005	168,405	-	-	37,732	2,389,753
Held as fair value hedges	-	-	170,288	-	-	-	-	170,288
Commitments and contingencies	38,825,666	983,631	6,730,997	5,431,302	194	1,370,278	1,533,330	54,875,398
Letters of credit	4,559,809	155,578	32,451	1,101	194	38,278	27,461	4,814,872
Letters of guarantee	27,863,947	439,866	6,697,475	3,672,443	-	1,330,215	1,471,698	41,475,644
Acceptances	2,390,696	16,997	1,039	1,922	-	1,785	4,171	2,416,610
Irrevocable commitments to extend	4,011,214	371,190	32	1,755,836	-	-	30,000	6,168,272

2018 SAR'000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Assets								
Cash and balances with SAMA	16,323,163	-	9	-	-	-	-	16,323,172
Cash in hand	5,212,771	-	9	-	-	-	-	5,212,780
Balances with SAMA	11,110,392	-	-	-	-	-	-	11,110,392
Due from banks and other financial institutions	7,168,419	243,582	1,747,766	1,736,290	-	98,657	34,462	11,029,176
Current accounts	46,468	104,300	402,968	1,304,564	-	90,667	34,462	1,983,429
Money market placements	7,121,951	139,282	1,344,798	431,726	-	7,990	-	9,045,747
Positive fair value of	165,878	22,552	63,051	35,144	-	-	-	286,625
Investments, net	32,472,574	2,336,183	2,995,033	8,222,419	104,526	417,458	1,444,579	47,992,772
FVIS	392,484	-	-	788	-	-	-	393,272
FVOCI	1,718,101	88,728	2,995,033	8,221,631	104,526	417,458	1,180,794	14,726,271
Amortised cost	30,361,989	2,247,455	-	-	-	-	263,785	32,873,229
Investment in associates	419,769	175,724	-	-	-	-	-	595,493
Loans and advances, net	148,104,829	2,312,590	61,789	208,005	-	337,617	-	151,024,830
Overdraft	5,997,031	-	-	-	-	-	-	5,997,031
Credit cards	730,947	-	-	-	-	-	-	730,947
Consumer loans	44,349,231	-	-	-	-	-	-	44,349,231
Commercial loans	96,746,230	2,312,590	61,789	208,005	-	337,617	-	99,666,231
Others	281,390	-	-	-	-	-	-	281,390
Other assets	720,641	-	-	-	-	-	-	720,641
Accounts receivable and others	720,641	-	-	-	-	-	-	720,641
Total	205,375,273	5,090,631	4,867,648	10,201,858	104,526	853,732	1,479,041	227,972,709

30. FINANCIAL RISK MANAGEMENT (continued)

30.2 GEOGRAPHICAL CONCENTRATION (continued)

2018 SAR'000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Liabilities								
Due to banks and other financial institutions	3,942,949	1,728,654	2,137,307	364,510	-	8,786	398,308	8,580,514
Current accounts	30,710	229,746	483,452	21,394	-	8,786	58,817	832,905
Money market deposits	3,912,239	1,498,908	1,653,855	343,116	-	-	339,491	7,747,609
Negative fair value of derivatives	117,238	6,990	145,290	4,752	-	-	-	274,270
Customer deposits	168,705,850	-	1,116,306	-	-	-	-	169,822,156
Demand	86,709,137	-	133,058	-	-	-	-	86,842,195
Saving	459,724	-	-	-	-	-	-	459,724
Time	65,321,004	-	983,248	-	-	-	-	66,304,252
Other	16,215,985	-	-	-	-	-	-	16,215,985
Debt securities in issue	4,003,783	-	-	-	-	-	-	4,003,783
Other liabilities	10,424,589	-	9,219	10,582	-	247	-	10,444,637
Accounts payable and others	10,424,589	-	9,219	10,582	-	247	-	10,444,637
Total	187,194,409	1,735,644	3,408,122	379,844	-	9,033	398,308	193,125,360
Commitments and contingencies	59,581,262	1,077,870	11,749,659	8,939,009	144	2,635,476	1,991,286	85,974,706
Letters of credit	7,580,683	309,286	10,739	-	144	55,159	162,970	8,118,981
Letters of guarantee	41,863,921	446,349	11,553,381	6,147,309	-	2,574,683	1,815,339	64,400,982
Acceptances	1,790,103	19,079	1,004	-	-	5,634	12,977	1,828,797
Irrevocable commitments to extend credit	8,346,555	303,156	184,535	2,791,700	-	-	-	11,625,946
Maximum credit exposure (stated at credit equivalent amounts according to SAMA's prescribed methodology)								
Derivatives	821,988	316,193	459,614	76,068	-	-	-	1,673,863
Held for trading	821,988	316,193	358,266	76,068	-	-	-	1,572,515
Held as fair value hedges	-	-	101,348	-	-	-	-	101,348
Commitments and contingencies	38,305,399	625,223	8,019,924	5,597,647	70	1,797,880	1,336,803	55,682,946
Letters of credit	3,675,653	149,964	5,207	-	70	26,745	79,019	3,936,658
Letters of guarantee	28,706,763	306,069	7,922,339	4,215,309	-	1,765,501	1,244,807	44,160,788
Acceptances	1,790,103	19,079	1,004	-	-	5,634	12,977	1,828,797
Irrevocable commitments to extend credit	4,132,880	150,111	91,374	1,382,338	-	-	-	5,756,703

30. FINANCIAL RISK MANAGEMENT (continued)

30.2 GEOGRAPHICAL CONCENTRATION (continued)

b) The distribution by geographical concentration of non-performing loans and advances and provision for credit losses are as follows:

	Non-performing loans and advances, net		Allowance for credit losses	
	2019	2018	2019	2018
	SAR'000	SAR'000	SAR'000	SAR'000
Kingdom of Saudi Arabia				
Commercial Loans*	1,176,184	1,318,050	(784,655)	(640,240)
Consumer Loans**	377,950	243,387	(226,413)	(57,741)
Total	1,554,134	1,561,437	(1,011,068)	(697,981)

*Includes overdrafts and other loans
** includes consumer mortgage loans

30.3 CREDIT QUALITY ANALYSIS

The Group uses its internal ratings to rate the credit quality of its portfolio and uses the following categories:

Low - fair risk: Performing assets of high / good quality.

Watch list: Assets that have shown some initial signs of deterioration in credit quality in the recent past and are likely subject to increasing levels of credit risk.

Substandard: Assets which exhibit substantially higher level of credit risk.

Doubtful: These assets are typically in default (impaired) but still show some prospect of partial recovery in principal in the future.

Loss: Impaired assets which are generally fully provided and have low expectations of further recovery.

a) The following table sets out information about the credit quality of financial assets as at December 31, 2019 and 2018. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

i) Balances with SAMA and due from bank and other financial institutions

2019 SAR'000	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Investment grade	28,498,974	-	-	28,498,974
Non-investment grade	509,501	-	-	509,501
Carrying amount	29,008,475	-	-	29,008,475

2018 SAR'000	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Investment grade	17,878,277	-	-	17,878,277
Non-investment grade	4,266,628	-	-	4,266,628
Carrying amount	22,144,905	-	-	22,144,905

30. FINANCIAL RISK MANAGEMENT (continued)
30.3 CREDIT QUALITY ANALYSIS (continued)

ii) Loans and advances, gross at amortized cost

2019 SAR'000	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Low – fair risk	168,355,686	3,065,353	665,573	172,086,612
Watch list	114,590	1,913,529	291,497	2,319,616
Substandard	-	-	1,357,736	1,357,736
Doubtful	-	-	427,437	427,437
Loss	-	-	546,464	546,464
Carrying amount	168,470,276	4,978,882	3,288,707	176,737,865

2018 SAR'000	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Low – fair risk	141,464,024	6,823,511	137,155	148,424,690
Watch list	163,672	1,896,235	601,582	2,661,489
Substandard	-	-	1,432,249	1,432,249
Doubtful	-	-	501,808	501,808
Loss	-	-	363,123	363,123
Carrying amount	141,627,696	8,719,746	3,035,917	153,383,359

ii) (a) Credit cards, gross

2019 SAR'000	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Low – fair risk	714,841	32,487	-	747,328
Watch list	-	18,728	-	18,728
Substandard	-	-	32,428	32,428
Doubtful	-	-	-	-
Loss	-	-	-	-
Carrying amount	714,841	51,215	32,428	798,484

2018 SAR'000	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Low – fair risk	684,864	35,713	-	720,577
Watch list	-	23,893	-	23,893
Substandard	-	-	30,933	30,933
Doubtful	-	-	-	-
Loss	-	-	-	-
Carrying amount	684,864	59,606	30,933	775,403

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 CREDIT QUALITY ANALYSIS (continued)

ii) (b) Consumer loans, gross*

2019 SAR'000	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Low – fair risk	53,660,065	814,201	-	54,474,266
Watch list	-	732,214	-	732,214
Substandard	-	-	745,075	745,075
Doubtful	-	-	198,189	198,189
Loss	-	-	179,761	179,761
Carrying amount	53,660,065	1,546,415	1,123,025	56,329,505

2018 SAR'000	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Low – fair risk	42,580,593	903,916	-	43,484,509
Watch list	-	840,308	-	840,308
Substandard	-	-	704,810	704,810
Doubtful	-	-	197,445	197,445
Loss	-	-	45,942	45,942
Carrying amount	42,580,593	1,744,224	948,197	45,273,014

ii) (c) Commercial loans, gross**

2019 SAR'000	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Low – fair risk	113,980,780	2,218,665	665,573	116,865,018
Watch list	114,590	1,162,587	291,497	1,568,674
Substandard	-	-	580,233	580,233
Doubtful	-	-	229,248	229,248
Loss	-	-	366,703	366,703
Carrying amount	114,095,370	3,381,252	2,133,254	119,609,876

2018 SAR'000	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Low – fair risk	98,198,567	5,883,882	137,155	104,219,604
Watch list	163,672	1,032,034	601,582	1,797,288
Substandard	-	-	696,506	696,506
Doubtful	-	-	304,363	304,363
Loss	-	-	317,181	317,181
Carrying amount	98,362,239	6,915,916	2,056,787	107,334,942

* Includes consumer mortgage loans

* *Includes overdrafts and other loans

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 CREDIT QUALITY ANALYSIS (continued)

iii) Investments (FVOCI and amortised cost- debt instruments)

2019 SAR'000	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Low – fair risk	48,646,065	577,601	-	49,223,666
Watch list	18,070	45,106	31	63,207
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	-	-
Carrying amount	48,664,135	622,707	31	49,286,873

2018 SAR'000	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Low – fair risk	44,725,347	866,377	-	45,591,724
Watch list	3,279	42,970	-	46,249
Substandard	-	-	10,310	10,310
Doubtful	-	-	-	-
Loss	-	-	-	-
Carrying amount	44,728,626	909,347	10,310	45,648,283

The following table sets out information about the credit quality of letters of credit, letters of guarantee and acceptances as at December 31, 2019 and 2018.

2019 SAR'000	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Low – fair risk	71,543,608	791,185	128,052	72,462,845
Watch list	6,266	357,718	4,459	368,443
Substandard	-	-	81,862	81,862
Doubtful	-	-	1,143	1,143
Loss	-	-	247,074	247,074
Carrying amount	71,549,874	1,148,903	462,590	73,161,367

2018 SAR'000	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Low – fair risk	67,754,998	5,810,793	50,169	73,615,960
Watch list	10,524	433,165	51,161	494,850
Substandard	-	-	190,645	190,645
Doubtful	-	-	2,247	2,247
Loss	-	-	45,058	45,058
Carrying amount	67,765,522	6,243,958	339,280	74,348,760

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 CREDIT QUALITY ANALYSIS (continued)

b) **Amounts arising from ECL – Significant increase in credit risk**

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:
- the remaining 12 month probability of default (PD) as at the reporting date; with
- the remaining 12 month PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Group, groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:
Stage 1: When loans are first recognised, the Group recognises an allowance based on 12 months ECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2 or Stage 3.
Stage 2: When a loan has shown a significant increase in credit risk since origination but is not credit impaired, the Group records an allowance for the Lifetime ECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
Stage 3: Loans considered credit-impaired. The Group records an allowance for the Lifetime ECL.
POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 CREDIT QUALITY ANALYSIS (continued)

b) **Amounts arising from ECL – Significant increase in credit risk (continued)**

Credit risk grades

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower and his business activities.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each corporate exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring of exposures involves use of the following data.

Corporate exposures	Retail exposures	All exposures
Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality management and senior management changes.	Internally collected data and customer behavior – e.g. utilization of credit card facilities	Payment record – this includes overdue status as well as a range of variables about payment ratios
Data from credit reference agencies, press articles, changes in external credit ratings	Customer payment behavior based on internally collected data – e.g. Delinquency cycles	Utilization of the granted limit
Quoted bond and credit default swap (CDS) prices for the borrower where available	Types and number of products held at customer level	Requests for and granting of forbearance
Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities		Existing and forecast changes in business, financial and economic conditions

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 CREDIT QUALITY ANALYSIS (continued)

b) **Amounts arising from ECL – Significant increase in credit risk (continued)**

i) Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analyzed by type of product and borrower as well as by credit risk grading. For some portfolios, information obtained from external credit reference agencies is also used.

The Group employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include GDP growth, benchmark interest rates and unemployment. For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices.

Based on advice from the Group's Chief Economist and consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Group then uses these forecasts to adjust its estimates of PDs.

ii) Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group's quantitative modeling.

Using its expert credit judgment and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis. Disclosure of relevant qualitative indicators, including different criteria used for different portfolios- e.g. retail mortgages, credit cards, commercial real estate etc.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due, on a material exposure. Days past due are determined by counting the number of days since the due date in respect of which full payment that is in excess of the materiality threshold has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

iii) Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer or being undergone into financially stressed conditions. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the accounting policy.

When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of PD at the reporting date based on the modified terms and the PD estimated based on data at initial recognition and the original contractual terms.

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 CREDIT QUALITY ANALYSIS (continued)

b) **Amounts arising from ECL – Significant increase in credit risk (continued)**

iii) Modified financial assets (continued)

The Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximize collection opportunities and minimize the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the banking commission, the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Group Audit Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Group's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect interest and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group evaluates the borrower's payment performance against the modified contractual terms and considers various behavioral indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired /in default. A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

iv) Definition of 'Default'

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Group. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding. In assessing whether a borrower is in default. The Group considers indicators that are:
- qualitative- e.g. breaches of covenant ;
- quantitative- e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 CREDIT QUALITY ANALYSIS (continued)

b) **Amounts arising from ECL – Significant increase in credit risk (continued)**

v) Incorporation of forward looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Group is using different indigenous macro-econometric models to help estimating default rates for the wholesale, banks and corporate bonds portfolios, as well as personal loans, mortgage loans, auto loans and credit cards.

The models are developed individually and the relative importance of macroeconomic variables are identified by using the most suitable statistical techniques including Co-integration, Ordinary least square regressions and Granger causality test for non-retail portfolios. To explore the potential impact of changing economic conditions on the future Group's default rates, a composite index is established for the most relevant macroeconomic factors to each single portfolio in non-retail portfolios, under different scenarios and using the weights from the models. Each composite index is a mean to measure the influence of the different factors comprising the model on default rates for each product within the non-retail portfolios. Through the composite index, the Group could obtain simultaneous changes in all the factors that appear to affect the default rate for each credit risk exposure.

For the retail portfolios, the modelling methodology involves a systematic approach with rigorous analyses to arrive at the final macroeconomic model where the underlying development process involves steps of data transformation, univariate and multivariate variable reduction and model selection.

These models help in quantifying the direction and magnitude of the impact of each single macroeconomic factor on the default rate in each separate portfolio. The upmost macroeconomic variables seem to affect the default rate in the Group are:

<u>Economic Indicators</u>

- GDP/ The non-oil private sector
- GDP based on purchasing-power-parity (PPP)
- The International prices for Saudi Oil
- The Daily Average Saudi Oil production
- The Short term interest rate (3 month SIBOR)
- The 5 year SAR Interest rate swap (IRS) rate.
- The Consumer Price Index (inflation)
- The loans to private sector
- The Unemployment rate
- Volume of imports of goods and services
- General government lending/borrowing
- Government Investments

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 CREDIT QUALITY ANALYSIS (continued)

b) **Amounts arising from ECL – Significant increase in credit risk (continued)**

vi) Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

i. probability of default (PD);

ii. loss given default (LGD);

iii. exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data.

PD estimates are estimates at a certain date, which are calculated, based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally and externally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 CREDIT QUALITY ANALYSIS (continued)

b) **Amounts arising from ECL – Significant increase in credit risk (continued)**

vi) Measurement of ECL (continued)

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modeling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for retail credit card facilities that include both a loan and an undrawn commitment component, the Group measures ECL based on the existing expiry date of the credit card. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Group has the right to cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management but only when the Group becomes aware of an increase in credit risk. The Group does not offer retail overdraft facilities, and any technical overdrafts originating in retail current accounts are considered payable immediately; such technical overdrafts are also subjected to Group’s staging criteria.

Where modeling of a parameter is carried out on a collective basis, the financial instruments are grouped based on shared risk characteristics that include:

- product/instrument type;
- credit risk categorization;
- collateral;
- recovery and cure rates; date of initial recognition;
- remaining term to maturity;

The grouping is subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data.

30. FINANCIAL RISK MANAGEMENT (continued)

30.4 CREDIT QUALITY OF LOANS AND ADVANCES

a) Ageing of loans and advances (Excluding non-performing loans)

2019 SAR'000	Credit cards	Consumer loans*	Commercial loans**	Total
Upto 30 days	48,544	2,168,986	1,267,010	3,484,540
From 31 - 90 days	22,737	769,237	462,993	1,254,967
From 91 - 180 days	16,934	290,882	190,919	498,735
More than 180 days	-	-	522,903	522,903
Total	88,215	3,229,105	2,443,825	5,761,145

2018 SAR'000	Credit cards	Consumer loans*	Commercial loans**	Total
Upto 30 days	62,231	3,495,818	51,340	3,609,389
From 31 - 90 days	27,208	1,031,869	422,787	1,481,864
From 91 - 180 days	16,546	360,058	50,777	427,381
More than 180 days	-	-	351,176	351,176
Total	105,985	4,887,745	876,080	5,869,810

* Includes consumer mortgage loans
** Includes overdrafts and other loans

30. FINANCIAL RISK MANAGEMENT (continued)

30.4 CREDIT QUALITY OF LOANS AND ADVANCES (continued)

b) Economic sector risk concentration for the loans and advances and allowance for impairment are as follows

SAR' 000	2019 Performing	2019 Non performing	2019 Allowance for impairment	2019 Loans and advances, net	2018 Performing	2018 Non performing	2018 Allowance for impairment	2018 Loans and advances, net
Government and quasi Government	61,521	-	(719)	60,802	-	-	-	-
Banks and other financial institutions	8,363,041	-	(4,782)	8,358,259	6,989,286	-	(8,263)	6,981,023
Agriculture and fishing	2,169,818	-	(2,961)	2,166,857	1,935,554	-	(3,492)	1,932,062
Manufacturing	24,506,104	19,929	(337,249)	24,188,784	24,897,676	501	(231,725)	24,666,452
Mining and quarrying	7,896,825	-	(3,652)	7,893,173	6,940,962	-	(257)	6,940,705
Electricity, water, gas and health services	3,188,051	500	(818)	3,187,733	3,098,627	-	(1,276)	3,097,351
Building and construction	14,721,715	234,096	(163,465)	14,792,346	14,694,804	490,505	(321,636)	14,863,673
Commerce	43,386,698	860,464	(1,242,568)	43,004,594	35,934,569	824,993	(809,696)	35,949,866
Transportation and communication	4,748,303	-	(1,967)	4,746,336	3,883,443	-	(3,600)	3,879,843
Services	9,389,690	61,195	(22,189)	9,428,696	7,610,301	2,051	(10,336)	7,602,016
Consumer loans and credit cards	56,750,039	377,950	(975,495)	56,152,494	45,805,030	243,387	(968,239)	45,080,178
Others	1,926	-	(1)	1,925	31,670	-	(9)	31,661
Total	175,183,731	1,554,134	(2,755,866)	173,981,999	151,821,922	1,561,437	(2,358,529)	151,024,830

c) Collateral

The Group in the ordinary course of lending activities holds collateral as security to mitigate credit risk in the loans and advances. These collaterals mostly include time, demand and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. The collaterals are held mainly against commercial and consumer loans and are managed against relevant exposures at their net realisable values. Management monitors the market value of the collateral and requests additional collateral in accordance with the underlying agreement when deemed necessary. Fair value of collateral held by Group against financing and advances by each category are as follows:

	2019 SAR'000	2018 SAR'000
Good loans	52,148,593	46,388,480
Past due but performing loans	2,586,024	4,103,990
Non performing loans	867,516	1,864,326
Total	55,602,133	52,356,796

31. MARKET RISK

Market Risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as special commission rates, foreign exchange rates, commodity and equity prices. The Group classifies exposures to market risk into either trading or non-trading/ banking-book. The market risk for the trading book is managed and monitored using a VaR methodology. Market risk for the non-trading book is managed and monitored using a combination of VaR, stress testing and sensitivity analysis.

31.1 Market Risk - Trading Book

The Group has set limits (both VaR and exposure based limits) for the acceptable level of risks in managing the trading book. In order to manage the market risk in trading book, the Group applies a VaR methodology to assess the market risk positions held and also to estimate the potential economic loss based on a set of assumptions and changes in market conditions.

A VaR methodology estimates the potential negative change in market value of a portfolio at a given confidence level and over a specified time horizon. The Group uses variance-covariance approach for calculating VaR for trading book based on historical data (of 1 year). VaR models are usually designed to measure the market risk in a normal market environment and therefore the use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical distribution.

The Bank calculates VaR on the basis of the following:

1. 10 days holding period at 99% confidence interval for regulatory capital computation
2. 1 day holding period at 99% confidence interval for internal reporting and for disclosure purposes.

This means that the VaR that the Group measures is an estimate (using a confidence level of 99% of the potential loss) that is not expected to be exceeded if the current market positions were to be held unchanged for 1 or 10 days. The use of 99% confidence level depicts that within a 1-day horizon, losses exceeding VaR figure should occur, on average, not more than once every hundred days.

The VaR represents the risk of portfolios at the close of a business day, and it does not account for any losses that may occur beyond the defined confidence interval. The actual trading results however, may differ from the VaR calculations and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions.

To overcome the VaR limitations mentioned above, the Group also carries out stress tests of both non-trading and trading portfolios to simulate conditions outside normal confidence intervals using six stress scenarios for the entire Group. The potential losses occurring under stress test conditions are reported regularly to the Bank's Asset Liability Committee (ALCO) for their review.

The Group's VaR related information for the year ended December 31, 2019 and 2018 using a 1 day holding period at 99% confidence interval is set out below. All the figures are in million SAR:

	2019			
	Foreign exchange rate risk	Special commission rate risk	Equity price risk	Overall risk
VaR as at December 31, 2019	2.24	5.20	2.55	8.10
Average VaR for 2019	6.90	8.78	1.58	13.63
Maximum VaR for 2019	28.78	24.35	2.63	34.39
Minimum VaR for 2019	1.11	1.62	0.19	4.98

	2018			
	Foreign exchange rate risk	Special commission rate risk	Equity price risk	Overall risk
VaR as at December 31, 2018	3.71	2.83	5.54	10.33
Average VaR for 2018	7.87	1.31	5.04	13.54
Maximum VaR for 2018	27.39	4.34	5.54	32.97
Minimum VaR for 2018	1.58	0.04	4.82	6.41

31. MARKET RISK (continued)

31.2 Market Risk - Non-trading or Banking Book

i) Special commission rate risk

Special commission rate risk arises from the possibility that the changes in special commission rates will affect either the fair values or the future cash flows of the financial instruments. The Group has established Net special commission Income at Risk and Market Value at Risk (MVaR) limits that are monitored by ALCO. There are gap limits to accommodate Forward FX and Money Market for USD, SAR and other major currencies. The Group monitors positions daily and uses hedging strategies to ensure maintenance of positions within the established gap limits.

The following table depicts the sensitivity to a reasonable possible change in special commission rates, with other variables held constant, on the Group's consolidated statement of income or equity.

The sensitivity of the income is the effect of the assumed changes in special commission rates on the net special commission income for one year, on the non-trading financial assets and financial liabilities held as at December 31, 2019 and 2018, including the effect of hedging instruments.

The sensitivity of equity is calculated by revaluing the fixed rate FVOCI financial assets, including the effect of any associated hedges as at December 31, 2019 and 2018 for the effect of assumed changes in special commission rates. The sensitivity of equity is analysed by maturity of the asset or swap. All the banking book exposures are monitored and analysed in currency concentrations and relevant sensitivities are disclosed in SAR million.

2019

Currency	Increase in basis points	Sensitivity of net special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years	Over 5 years	
SAR	+ 100	309.65	-	-	-	-	-
USD	+ 100	(43.08)	(4.59)	(2.25)	(265.61)	(330.53)	(602.98)
EUR	+ 100	0.13	(0.26)	(2.03)	(4.38)	(3.73)	(10.40)
GBP	+ 100	(8.24)	-	-	-	-	-
JPY	+ 100	1.01	-	-	-	-	-
Others	+ 100	(0.60)	-	-	-	-	-

Currency	Decrease in basis points	Sensitivity of net special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years	Over 5 years	
SAR	- 100	(309.65)	-	-	-	-	-
USD	- 100	45.89	4.59	2.25	265.61	330.53	602.98
EUR	- 100	(0.13)	0.26	2.03	4.38	3.73	10.40
GBP	- 100	7.93	-	-	-	-	-
JPY	- 100	(0.95)	-	-	-	-	-
Others	- 100	0.59	-	-	-	-	-

31. MARKET RISK (continued)

31.2 Market Risk - Non-trading or Banking Book (continued)

i) Special commission rate risk (continued)

2018

Currency	Increase in basis points	Sensitivity of special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years	Over 5 years	
SAR	+ 100	310.00	-	-	-	-	-
USD	+ 100	(50.00)	(0.64)	(0.70)	(44.81)	(303.27)	(349.42)
EUR	+ 100	(8.00)	(0.01)	-	(0.42)	(0.56)	(0.99)
GBP	+ 100	(0.60)	-	-	-	-	-
JPY	+ 100	4.96	-	-	-	-	-
Others	+ 100	(0.57)	-	-	-	-	-

Currency	Decrease in basis points	Sensitivity of special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years	Over 5 years	
SAR	- 100	(310.00)	-	-	-	-	-
USD	- 100	50.00	0.64	0.70	44.81	303.27	349.42
EUR	- 100	-	0.01	-	0.42	0.56	0.99
GBP	- 100	0.40	-	-	-	-	-
JPY	- 100	(4.96)	-	-	-	-	-
Others	- 100	0.57	-	-	-	-	-

Special commission sensitivity of assets, liabilities and off statement of financial position items

The Group manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market special commission rates on its financial position and cash flows. The Group is exposed to special commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off statement of financial position instruments that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

31. MARKET RISK (continued)

31.2 Market Risk - Non-trading or Banking Book (continued)

ii) Special commission rate risk (continued)

The table below summarises the Group's exposure to special commission rate risks. Included in the table are the Group's assets, liabilities and shareholders' equity at carrying amounts, categorised by the earlier of contractual re-pricing or the maturity dates.

2019 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total
Assets						
Cash and balances with SAMA	14,628,798	-	-	-	14,560,689	29,189,487
Cash in hand	-	-	-	-	4,916,642	4,916,642
Balances with SAMA	14,628,798	-	-	-	9,644,047	24,272,845
Due from banks and other financial institutions	3,625,622	724,843	-	-	384,423	4,734,888
Current accounts	574,543	-	-	-	384,423	958,966
Money market placements	3,051,079	724,843	-	-	-	3,775,922
Positive fair value of derivatives	53,607	16,192	366,406	172,642	-	608,847
Investments, net	7,276,051	10,437,818	15,759,844	15,799,800	4,087,902	53,361,415
FVIS	-	-	-	-	1,038,918	1,038,918
FVOCI	627,141	398,823	5,469,978	10,636,027	3,048,984	20,180,953
Amortised cost	6,648,910	10,038,995	10,289,866	5,163,773	-	32,141,544
Investment in associates	-	-	-	-	702,882	702,882
Loans and advances, net	74,544,810	52,393,664	30,897,620	16,145,905	-	173,981,999
Overdraft	6,763,295	-	-	-	-	6,763,295
Credit cards	760,513	-	-	-	-	760,513
Consumer loans	4,414,493	11,369,452	24,428,101	15,179,935	-	55,391,981
Commercial loans	62,108,635	41,024,212	6,469,519	965,970	-	110,568,336
Others	497,874	-	-	-	-	497,874
Other real estate	-	-	-	-	233,057	233,057
Property and equipment, net	-	-	-	-	2,201,925	2,201,925
Other assets	430,429	-	-	-	343,949	774,378
Accounts receivable and others	430,429	-	-	-	343,949	774,378
Total assets	100,559,317	63,572,517	47,023,870	32,118,347	22,514,827	265,788,878
Liabilities and shareholders' equity						
Due to banks and other financial institutions	3,786,561	7,853,898	-	632,230	851,791	13,124,480
Current accounts	-	-	-	-	851,791	851,791
Money market deposits	3,786,561	7,853,898	-	632,230	-	12,272,689
Negative fair value of derivatives	6,724	11,652	340,518	290,332	-	649,226
Customer deposits	59,917,083	19,349,365	7,407,767	48,200	107,795,484	194,517,899
Demand	6,082,067	-	-	-	87,625,739	93,707,806
Saving	525,605	-	-	-	-	525,605
Time	53,309,411	19,349,365	7,407,767	48,200	-	80,114,743
Other	-	-	-	-	20,169,745	20,169,745
Debt securities in issue	-	4,003,029	-	-	-	4,003,029
Other liabilities	-	-	-	-	12,922,782	12,922,782
Accounts payable and others	-	-	-	-	12,922,782	12,922,782
Shareholders' equity	-	-	-	-	40,571,462	40,571,462
Total liabilities and shareholders' equity	63,710,368	31,217,944	7,748,285	970,762	162,141,519	265,788,878
Special commission rate sensitivity -On statement of financial position gap	36,848,949	32,354,573	39,275,585	31,147,585	(139,626,692)	-
Special commission rate sensitivity -Off statement of financial position gap	2,437,935	731,504	(1,116,556)	(2,052,883)	-	
Total special commission rate sensitivity gap	39,286,884	33,086,077	38,159,029	29,094,702	(139,626,692)	
Cumulative special commission rate sensitivity	39,286,884	72,372,961	110,531,990	139,626,692	-	

31. MARKET RISK (continued)

31.2 Market Risk - Non-trading or Banking Book (continued)

ii) Special commission rate risk (continued)

2018 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total
Assets						
Cash and balances with SAMA	2,459,863	-	-	-	13,863,309	16,323,172
Cash in hand	-	-	-	-	5,212,780	5,212,780
Balances with SAMA	2,459,863	-	-	-	8,650,529	11,110,392
Due from banks and other financial institutions	10,198,199	275,000	-	-	555,977	11,029,176
Current accounts	1,427,452	-	-	-	555,977	1,983,429
Money market placements	8,770,747	275,000	-	-	-	9,045,747
Positive fair value of derivatives	11,156	12,641	200,866	61,962	-	286,625
Investments, net	7,455,110	8,687,858	19,910,977	9,550,226	2,388,601	47,992,772
FVIS	-	-	-	-	393,272	393,272
FVOCI	798,891	441,728	5,912,461	5,577,862	1,995,329	14,726,271
Amortised cost	6,656,219	8,246,130	13,998,516	3,972,364	-	32,873,229
Investment in associates	-	-	-	-	595,493	595,493
Loans and advances, net	70,156,997	50,221,294	27,615,205	3,031,334	-	151,024,830
Overdraft	5,997,031	-	-	-	-	5,997,031
Credit cards	730,947	-	-	-	-	730,947
Consumer loans	5,102,474	15,153,760	21,958,298	2,134,699	-	44,349,231
Commercial loans	58,045,155	35,067,534	5,656,907	896,635	-	99,666,231
Others	281,390	-	-	-	-	281,390
Other real estate	-	-	-	-	227,405	227,405
Property and equipment, net	-	-	-	-	1,699,462	1,699,462
Other assets	348,506	-	-	-	372,135	720,641
Accounts receivable and others	348,506	-	-	-	372,135	720,641
Total assets	90,629,831	59,196,793	47,727,048	12,643,522	19,702,382	229,899,576
Liabilities and shareholders' equity						
Due to banks and other financial institutions	6,742,481	373,058	-	632,070	832,905	8,580,514
Current accounts	-	-	-	-	832,905	832,905
Money market deposits	6,742,481	373,058	-	632,070	-	7,747,609
Negative fair value of derivatives	33,147	6,612	144,052	90,459	-	274,270
Customer deposits	55,242,009	13,368,807	2,294,172	-	98,917,168	169,822,156
Demand	4,141,012	-	-	-	82,701,183	86,842,195
Saving	459,724	-	-	-	-	459,724
Time	50,641,273	13,368,807	2,294,172	-	-	66,304,252
Other	-	-	-	-	16,215,985	16,215,985
Debt securities in issue	-	4,003,783	-	-	-	4,003,783
Other liabilities	-	-	-	-	10,444,637	10,444,637
Accounts payable and others	-	-	-	-	10,444,637	10,444,637
Shareholders' equity	-	-	-	-	36,774,216	36,774,216
Total liabilities and shareholders' equity	62,017,637	17,752,260	2,438,224	722,529	146,968,926	229,899,576
Special commission rate sensitivity -On statement of financial position gap	28,612,194	41,444,533	45,288,824	11,920,993	(127,266,544)	-
Special commission rate sensitivity -Off statement of financial position gap	2,677,733	750,180	(2,034,454)	(1,393,459)	-	
Total special commission rate sensitivity gap	31,289,927	42,194,713	43,254,370	10,527,534	(127,266,544)	
Cumulative special commission rate sensitivity gap	31,289,927	73,484,640	116,739,010	127,266,544	-	

31. MARKET RISK (continued)

31.2 Market Risk - Non-trading or Banking Book (continued)

iii) Currency risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Board has set limits on positions by currencies, which are monitored daily, and hedging strategies are also used to ensure that positions are maintained within the limits.

The table below shows the currencies to which the Group has a significant exposure as at December 31, 2019 and 2018 on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonable possible movement of the currency rate against SAR, with all other variables held constant, on the consolidated statement of income(due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity (due to change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges). A positive effect shows a potential increase in consolidated statement of income or equity; whereas a negative effect shows a potential net reduction in consolidated statement of income or equity.

Currency Exposures As at December 31, 2019 (SAR million)	Change in currency rate in %	Effect on net income
USD	± 1	±6.68
EUR	± 1	±0.34
GBP	± 1	±(0.07)
JPY	± 1	± 0.06
Others	± 1	±(0.02)

Currency Exposures As at December 31, 2018 (SAR million)	Change in currency rate in %	Effect on net income
USD	± 1	± 4.45
EUR	± 1	± 0.46
GBP	± 1	± 0.01
JPY	± 1	± 0.32
Others	± 1	± (0.04)

iv) Foreign currency risk

The Group manages exposure to effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for overnight positions, which are monitored daily. At the end of the year, the Group had the following significant net exposures denominated in foreign currencies:

	2019 Long (short) SAR'000	2018 Long (short) SAR'000
US Dollar	749,299	759,314
Japanese Yen	351	1,795
Euro	79	414
Pound Sterling	(1,466)	(246)
Others	55,995	35,956

Long position indicates that assets in a foreign currency are higher than the liabilities in the same currency; the opposite applies to short positions.

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31. MARKET RISK (continued)

31.2 Market Risk - Non-trading or Banking Book (continued)

v) Banking Book - Equity Price risk

Equity risk refers to the risk of decrease in fair values of equities in the Group's non-trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks.

The effect on the Group's equity investments held as available for sale due to reasonable possible change in equity indices, with all other variables held constant, is as follows:

Market Index	December 31, 2019		December 31, 2018	
	Change in equity index %	Effect in SAR millions	Change in equity index %	Effect in SAR millions
Tadawul	+5	94.70	+5	59.61
	+10	189.41	+10	119.23
	-5	(94.70)	-5	(59.61)
	-10	(189.41)	-10	(119.23)

32. LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up. To mitigate this risk, the bank has diversified sources of funding sources and assets are managed with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents and readily marketable securities.

Management monitors the maturity profile the balance sheet to ensure that adequate liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions.

All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Group. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% (2018: 7%) of total demand deposits and 4% (2018: 4%) of saving and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of its deposit liabilities, in the form of cash, gold, Saudi Government Bonds, Treasury bills or assets which can be converted into cash within a period not exceeding 30 days. The Bank has the ability to raise additional funds through repo facilities with SAMA, from 85% to 100% of the nominal value of bonds/ bills held by the Bank.

32. LIQUIDITY RISK (continued)

a) The table below summarises the maturity profile of the Group's financial liabilities at December 31, 2019 and 2018 based on contractual undiscounted repayment obligations. As special commission payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the reporting date to the contractual maturity date and do not take into account the effective expected maturities. The Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not affect the expected cash flows indicated by the Group's deposit retention history. The undiscounted maturity profile of the financial liabilities is as follows:

2019 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Financial liabilities					
Due to banks and other financial institutions	4,697,862	7,938,807	66,464	688,355	13,391,488
Current accounts	851,791	-	-	-	851,791
Money market deposits	3,846,071	7,938,807	66,464	688,355	12,539,697
Customer deposits	165,744,777	20,959,856	8,346,040	102,404	195,153,077
Demand	93,707,806	-	-	-	93,707,806
Saving	525,606	-	-	-	525,606
Time	53,595,601	19,630,105	7,475,614	48,600	80,749,920
Other	17,915,764	1,329,751	870,426	53,804	20,169,745
Debt securities in issue	40,029	122,310	638,237	4,092,871	4,893,447
Derivative financial instruments (gross contractual amounts payable)	11,952	7,573	138,209	67,275	225,009
Total undiscounted financial liabilities	170,494,620	29,028,546	9,188,950	4,950,905	213,663,021

2018 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Financial liabilities					
Due to banks and other financial institutions	7,598,134	387,701	66,447	703,639	8,755,921
Current accounts	832,905	-	-	-	832,905
Money market deposits	6,765,229	387,701	66,447	703,639	7,923,016
Customer deposits	152,411,341	14,607,249	3,319,674	38,145	170,376,409
Demand	86,842,195	-	-	-	86,842,195
Saving	459,726	-	-	-	459,726
Time	50,873,370	13,586,168	2,398,965	-	66,858,503
Other	14,236,050	1,021,081	920,709	38,145	16,215,985
Debt securities in issue	40,029	122,310	649,356	4,244,845	5,056,540
Derivative financial instruments (gross contractual amounts payable)	40,637	59,751	336,949	117,806	555,143
Total undiscounted financial liabilities	160,090,141	15,177,011	4,372,426	5,104,435	184,744,013

32. LIQUIDITY RISK (continued)

b) The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

2019 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	19,545,440	-	-	-	9,644,047	29,189,487
Cash in hand	4,916,642	-	-	-	-	4,916,642
Balances with SAMA	14,628,798	-	-	-	9,644,047	24,272,845
Due from banks and other financial institutions	4,010,045	724,843	-	-	-	4,734,888
Current accounts	958,966	-	-	-	-	958,966
Money market placements	3,051,079	724,843	-	-	-	3,775,922
Positive fair value of derivatives	53,607	16,192	366,406	172,642	-	608,847
Investments, net	1,452,805	7,753,664	17,611,814	22,455,229	4,087,903	53,361,415
FVIS	-	-	-	-	1,038,918	1,038,918
FVOCI	145,069	301,562	5,689,132	10,996,205	3,048,985	20,180,953
Amortised cost	1,307,736	7,452,102	11,922,682	11,459,024	-	32,141,544
Investment in associates	-	-	-	-	702,882	702,882
Loans and advances, net	50,970,560	30,184,094	43,660,866	49,166,479	-	173,981,999
Overdraft	6,763,295	-	-	-	-	6,763,295
Credit cards	760,513	-	-	-	-	760,513
Consumer loans	175,973	338,192	24,143,453	30,734,363	-	55,391,981
Commercial loans	42,772,905	29,845,902	19,517,413	18,432,116	-	110,568,336
Others	497,874	-	-	-	-	497,874
Other real estate	-	-	-	-	233,057	233,057
Property and equipment, net	-	-	-	-	2,201,925	2,201,925
Other assets	430,429	-	-	-	343,949	774,378
Accounts receivable and others	430,429	-	-	-	343,949	774,378
Total assets	76,462,886	38,678,793	61,639,086	71,794,350	17,213,763	265,788,878
Liabilities and shareholders' equity						
Due to banks and other financial institutions	4,638,352	7,853,898	-	632,230	-	13,124,480
Current accounts	851,791	-	-	-	-	851,791
Money market deposits	3,786,561	7,853,898	-	632,230	-	12,272,689
Negative fair value of derivatives	6,724	11,652	340,518	290,332	-	649,226
Customer deposits	165,458,586	20,679,116	8,278,193	102,004	-	194,517,899
Demand	93,707,806	-	-	-	-	93,707,806
Saving	525,605	-	-	-	-	525,605
Time	53,309,411	19,349,365	7,407,767	48,200	-	80,114,743
Other	17,915,764	1,329,751	870,426	53,804	-	20,169,745
Debt securities in issue	-	4,003,029	-	-	-	4,003,029
Other liabilities	12,352	37,058	212,083	646,565	12,014,724	12,922,782
Accounts payable and others	12,352	37,058	212,083	646,565	12,014,724	12,922,782
Shareholders' equity	-	-	-	-	40,571,462	40,571,462
Total liabilities and shareholders' equity	170,116,014	32,584,753	8,830,794	1,671,131	52,586,186	265,788,878

32. LIQUIDITY RISK (continued)

b) Analysis of assets and liabilities analysed according to when they are expected to be recovered or settled (continued).

2018 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	7,672,643	-	-	-	8,650,529	16,323,172
Cash in hand	5,212,780	-	-	-	-	5,212,780
Balances with SAMA	2,459,863	-	-	-	8,650,529	11,110,392
Due from banks and other financial institutions	10,754,176	275,000	-	-	-	11,029,176
Current accounts	1,983,429	-	-	-	-	1,983,429
Money market placements	8,770,747	275,000	-	-	-	9,045,747
Positive fair value of derivatives	11,156	12,641	200,866	61,962	-	286,625
Investments, net	5,343,882	1,345,109	21,343,815	17,571,365	2,388,601	47,992,772
FVIS	-	-	-	-	393,272	393,272
FVOCI	209,263	461,362	6,130,976	5,929,341	1,995,329	14,726,271
Amortised cost	5,134,619	883,747	15,212,839	11,642,024	-	32,873,229
Investment in associates	-	-	-	-	595,493	595,493
Loans and advances, net	50,246,419	26,432,328	37,924,610	36,421,473	-	151,024,830
Overdraft	5,997,031	-	-	-	-	5,997,031
Credit cards	730,947	-	-	-	-	730,947
Consumer loans	171,433	325,318	22,331,390	21,521,090	-	44,349,231
Commercial loans	43,065,618	26,107,010	15,593,220	14,900,383	-	99,666,231
Others	281,390	-	-	-	-	281,390
Other real estate	-	-	-	-	227,405	227,405
Property and equipment, net	-	-	-	-	1,699,462	1,699,462
Other assets	348,506	-	-	-	372,135	720,641
Accounts receivable and others	348,506	-	-	-	372,135	720,641
Total assets	74,376,782	28,065,078	59,469,291	54,054,800	13,933,625	229,899,576
Liabilities and shareholders' equity						
Due to banks and other financial institutions	7,575,386	373,058	-	632,070	-	8,580,514
Current accounts	832,905	-	-	-	-	832,905
Money market deposits	6,742,481	373,058	-	632,070	-	7,747,609
Negative fair value of derivatives	33,147	6,612	144,052	90,459	-	274,270
Customer deposits	152,179,242	14,389,888	3,214,881	38,145	-	169,822,156
Demand	86,842,195	-	-	-	-	86,842,195
Saving	459,724	-	-	-	-	459,724
Time	50,641,273	13,368,807	2,294,172	-	-	66,304,252
Other	14,236,050	1,021,081	920,709	38,145	-	16,215,985
Debt securities in issue	-	-	-	4,003,783	-	4,003,783
Other liabilities	6,818	20,136	146,596	543,553	9,727,534	10,444,637
Accounts payable and others	6,818	20,136	146,596	543,553	9,727,534	10,444,637
Shareholders' equity	-	-	-	-	36,774,216	36,774,216
Total liabilities and shareholders' equity	159,794,593	14,789,694	3,505,529	5,308,010	46,501,750	229,899,576

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, balances with SAMA, items in the course of collection; loans and advances to banks; and loans and advances to customers. The cumulative maturities of commitments and contingencies are given in note 19 c) .

33. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

Level 1: quoted market price: financial instruments with quoted unadjusted prices for identical instruments in active markets.

Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based

Level 3: valuation techniques for which any significant input is not based on observable market data.

Fair value and fair value hierarchy

2019 **SAR'000**	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Investments Held as FVIS	1,038,918	-		1,038,918
Investments Held as FVOCI	19,788,231	-	392,722	20,180,953
Positive fair value derivatives	-	608,847	-	608,847
Financial liabilities measured at fair value				
Negative fair value derivatives	-	649,226	-	649,226

2018 SAR'000	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Investments Held as FVIS	392,484	788		393,272
Investments Held as FVOCI	14,437,395	-	288,876	14,726,271
Positive fair value derivatives	-	286,625	-	286,625
Financial liabilities measured at fair value				
Negative fair value derivatives	-	274,270	-	274,270

The fair value of loans and advances amounts to SAR 178,286 million (2018: SAR 155,451 million).

The management uses discounted cash flow method, using the current yield curve adjusted for credit risk spreads to arrive at the fair value of loans and advances. Cash and balances with SAMA, due from banks with maturity of less than 90 days and other short term receivables, other assets and other liabilities are assumed to have fair values that reasonably approximate their corresponding carrying values due to the short-term nature. The fair value of investments held at amortized cost amounted to SAR 32,750 million (2018: SAR 32,825 million)

The fair values of due from banks and other financial institutions, due to banks and other financial institutions, customer deposits and debt securities issued at 31 December 2019 and 2018 approximate their carrying values.

There were no transfers between the fair value hierarchy levels.

33. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

Although the Group believes that its estimates of fair value of Level 3 securities are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. Level 3 consists of local and international unquoted equity securities. The Group uses net assets valuation and price to book value method based on most recent available audited financial statements to fair value these investments. Other methodology that could be used to value the securities is discounted cash flow model based on expected dividend yield for which no data is available. Therefore potential impact of using reasonably possible alternative assumptions for the valuation techniques is not quantified.

Reconciliation of movement in Level 3	2019 SAR'000	2018 SAR'000
Opening balance	288,876	315,912
Total gains or losses		
- recognised in consolidated statement of income	3	(477)
- recognised in other comprehensive income	5,178	(45,572)
Redemptions	-	-
Purchases	98,665	19,013
Closing balance	392,722	288,876

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

a) In the principal market for the asset or liability, or

b) In the absence of a principal market, in the most advantageous accessible market for the asset or liability.

34. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Group transacts business with related parties. Related party transactions are governed by the limits set by the Banking Control Law and regulations issued by SAMA. The balances at December 31 resulting from such transactions are as follows:

	2019 SAR'000	2018 SAR'000
a) Directors, key management personnel, other major shareholders' and their affiliates:		
Loans and advances	4,852,201	6,446,784
Customer deposits	29,307,754	26,552,085
Derivatives asset (at fair value)	172,374	6,378
Commitments and contingencies (irrevocable)	4,528,173	6,786,554
Executive end of service	31,997	32,671

Key management personnel are those persons, including a non-executive director, having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

b) **Bank's mutual funds:**		
Customer deposits	908,000	-

34. RELATED PARTY TRANSACTIONS (continued)

Income and expenses pertaining to transactions with related parties included in these consolidated financial statements are as follows:

	2019 SAR'000	2018 SAR'000
Special commission income	210,739	322,129
Special commission expense	469,019	403,924
Fees from banking services, net	338,202	174,092
Directors and committees remuneration and expenses	5,912	5,772
Executive remuneration and bonus	80,775	67,621
Executive end of service	6,784	3,984
Other expenses	88,075	50,872

35. CAPITAL ADEQUACY

The Group's objectives when managing capital are to comply with the capital requirements set by SAMA to safeguard the Group's ability to continue as a going concern and to maintain a strong capital base.

The Group monitors the adequacy of its capital using the methodologies and ratios established by the Basel Committee on Banking Supervision and as adopted by SAMA, with a view to maintain a sound capital base to support its business development and meet regulatory capital requirement as defined by SAMA.

The Group management reviews on a periodical basis its capital base and level of risk weighted assets to ensure that capital is adequate for risks inherent in its current business activities and future growth plans. In making such assessments, the management also considers the Group’s business plans along with economic conditions which directly and indirectly affect its business environment. SAMA has issued the framework and guidance regarding implementation of the capital reforms under Basel III - which are effective from January 1, 2013. Accordingly, the Group’s consolidated Risk Weighted Assets (RWA), total eligible capital and related ratios on a consolidated group basis are calculated under the Basel III framework.

The following table summarizes the Group's Pillar-1 Risk Weighted Assets, Tier 1 and Tier 2 capital and capital adequacy ratios.

	2019		2018	
	Capital SAR'000	Ratio %	Capital SAR'000	Ratio %
Top consolidated level				
Tier 1 capital	40,571,462	16.3%	36,774,216	16.1%
Tier 2 capital	4,513,360		4,383,731	
Total regulatory capital (Tier 1 + Tier 2)	45,084,822	18.1%	41,157,947	18.1%

Risk weighted assets	2019 SAR '000s	2018 SAR '000s
Credit risk weighted assets	229,293,237	210,879,810
Operational risk weighted assets	16,561,830	14,705,072
Market risk weighted assets	3,701,400	2,330,200
Total Pillar 1 Risk Weighted Assets	249,556,467	227,915,082

36. STAFF INVESTMENT SAVINGS PLAN

The Group operates a Staff Savings Investment Plan. Under the terms of the Staff Savings Investment Plan, participating employees of the Group make monthly contributions by way of a deduction from their salary subject to a maximum of 15% of their basic salaries. The Group also contributes on a monthly basis a pre-determined percentage (subject to a maximum of 6%) of the basic salary of an employee based on the varying service periods. The proceeds are invested in the Group’s existing range of mutual funds for the benefit of the employees.

The cost of the above plan is charged to the consolidated statement of income over the term of the plan.

37. INVESTMENT MANAGEMENT SERVICES

The Group offers investment management services to its customers, which include management of certain investment funds with assets totalling SAR 50.0 billion (2018: SAR 33.0 billion).
The Bank's assets under management, include Shariah-approved portfolios amounting to SAR 27.9 billion (2018: SAR 8.6 billion).

38. IFRS ISSUED BUT NOT EFFECTIVE

The Group has chosen not to early adopt the following new standards and amendments to IFRS which have been issued but not yet effective for the Group's accounting years beginning on or after 1 January 2020 and is currently assessing their impact.
Following is a brief on the new IFRS and amendments to IFRS

- IFRS 17 'Insurance Contracts' was issued by the IASB on 18 May 2017 and is effective for periods beginning on or after 1 January 2021.
- On 31 October 2018, the IASB issued 'Definition of Material (Amendments to IAS 1 and IAS 8)' to clarify the definition of 'material' and to align the definition used in the Conceptual Framework and the standards themselves. The amendments are effective annual reporting periods beginning on or after 1 January 2020.
- On 26 September 2019, the IASB issued 'Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)' as a first reaction to the potential effects the IBOR reform could have on financial reporting. The amendments are effective annual reporting periods beginning on or after 1 January 2020.
- Together with the revised 'Conceptual Framework' published in March 2018, the IASB also issued 'Amendments to References to the Conceptual Framework in IFRS Standards'. The amendments are effective for annual periods beginning on or after 1 January 2020.
- On 22 October 2018, the IASB issued 'Definition of a Business (Amendments to IFRS 3)' aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020

39. COMPARATIVE FIGURES

Certain other comparative amounts have been reclassified to conform with the current year presentation

40. BOARD OF DIRECTORS' APPROVAL

These consolidated financial statements were approved by the Board of Directors on Jumada Al-Awwal 27, 1441 (corresponding to January 22, 2020).

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Riyad Bank (the "Bank") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in shareholders' equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax.

Basis for Opinion

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

Key Audit Matters

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

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

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances At 31 December 2018, the gross loans and advances of the Group were Saudi Riyals 153.4 billion against which an impairment allowance of Saudi Riyals 2.4 billion was maintained. During the year, the Group adopted IFRS 9 which introduced forward looking expected credit loss (ECL) impairment model. On adoption, the Group applied the requirements of IFRS 9 retrospectively without restating the comparatives. The adoption of IFRS 9 resulted in a transition adjustment of Saudi Riyals 2.1 billion to the Group's shareholders' equity as at 1 January 2018 and the impact of transition are explained in note 3.1 to the consolidated financial statements. We considered impairment of loans and advances as a key audit matter as the determination of ECL involves signficant management judgement and has a material impact on the consolidated financial statements of the Group.The key areas of judgement include: - Categorisation of loans in Stages 1, 2 or 3 based on identification of (a) exposures with a significant increase in credit risk ("SICR") since their origination (b) individually impaired / default exposures - Assumptions used in the ECL model for determining probability of default (PD), loss given default (LGD) and exposure at default (EAD) including but not limited to assessment of financial condition of counterparty, expected future cash flows and forward looking macroeconomic factors. - The need to apply overlays to reflect current or future external factors that might not be captured by the expected credit loss model. - Disclosures relating from adoption of IFRS 9 and the related incremental disclosures of IFRS 7.	We obtained an understanding of management's assessment of the impairment of loans and advances including the IFRS 9 implementation process, the Group's internal rating model, the Group's impairment allowance policy and the ECL modelling methodology. We compared the Group's impairment allowance policy and ECL methodology with the requirements of IFRS 9. We assessed the design and implementation, and tested the operating effectiveness of controls over: - the modelling process including governance over monitoring of the model and approval of key assumptions; - the classification of borrowers in various stages and timely identification of SICR and determination of default / individually impaired exposures; and - integrity of data input into the ECL model. We assessed the Group's criteria for the determination of significant increase in credit risk and identification of impaired / default exposures and their classification into various stages. For a sample of customers, we assessed: - the internal ratings determined by the management based on the Group's internal rating model and assessed these ratings were in line with the ratings used in the ECL model; - the staging as identified by management; and - management's computations for ECL. We assessed the underlying assumptions including forward looking assumptions used by the Group in the ECL calculations.

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

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances (continued) *Refer to the notes 3.1 and 3.2(e) and (f) to the consolidated financial statements for the impacts of adoption of IFRS 9 – Financial Instruments and significant accounting policies relating to impairment of financial assets and accounting for financial guarantees and loan commitments, note 2 (d) (i) which contains the disclosure of critical accounting judgements, estimates and assumptions relating to the impairment losses on financial assets and the impairment assessment methodology used by the Group, note 8 which contains the disclosure of impairment against loans and advances and note 30.3 for details of credit quality analysis and key assumptions and factors considered in determination of ECL .*	Where management overlays were used, we assessed those overlays and the governance process around such overlays. We tested the completeness of data underlying the ECL calculation as of 31 December 2018. Where relevant, we involved specialists to assist us in review of model calculations and data integrity. As the Goup has used the modified restrospective approach for the adoption of IFRS 9, we performed all the above mentioned tasks to evaluate management's computation of ECL adjustment to the Group's shareholders' equity as at 1 January 2018 (as a result of adoption of IFRS 9). We assessed the disclosures included in the consolidated financial statements.

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

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Fees from banking services	
The Group charges administrative fees upfront to borrowers on loan financing. All such fees are an integral part of generating an involvement with the resulting financial instrument and therefore, all such fees should be considered in making an adjustment to the effective yield and income should be recognised using that adjusted effective yield and classified as special commission income. However, due to the large volume of transactions with mostly individually insignificant fee amounts, management uses certain assumptions and threshold in relation to the recognition of such fees and classifies them within "Fee and commission income, net". We considered this as a key audit matter since the use of management assumptions and threshold could result in material over / understatement of the Group's profitability. *Refer to the notes 3.2 (g) and 3.3 (d) to the consolidated financial statements related to accounting policies for special commisssion income and note 2 (d) (v) which contains the disclosure of critical accounting judgements, estimates and assumptions relating to the fee income.*	We performed the following procedures: We evaluated the assumptions and judgments used by management for recognizing the administrative fees charged upfront to borrowers. We obtained the management's assessment of the impact of the use of assumptions and threshold and performed the following: - on a sample basis, traced the historical and current year data used by management in their assessment to the underlying accounting records; and - assessed the impact on the recognition of fee and commission income and special commission income.

Building a better working world

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

Report on the Audit of the Consolidated Financial Statements (continued)

Other Information included in the Bank's 2018 Annual Report

The Board of Directors of the Bank (the "Directors") are responsible for the other information. The other information consists of the information included in the Bank's 2018 annual report, other than the consolidated financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

Report on the Audit of the Consolidated Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)
As part of an audit in accordance with International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

Report on the Audit of the Consolidated Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on other legal and regulatory requirements

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

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2 Jumada Al-Akhirah 1440H
(7 February 2019)

شركة ارنست ويونغ وشركاهم محاسبون قانونيون
ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45
ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS

برايس وترهاوس كوبرز محاسبون قانونيون
ترخيص رقم ٢٥
س.ت: ١٠١٠٣٧١٦٢٢
PRICEWATERHOUSECOOPERS
CERTIFIED PUBLIC ACCOUNTANTS
LICENSE NO. 25
C.R.1010371622

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2018 and 2017

	Note	2018 SAR'000	2017 SAR'000
ASSETS			
Cash and balances with SAMA	4	16,323,172	18,504,255
Due from banks and other financial institutions	5	11,029,176	9,372,200
Positive fair value of derivatives	6	286,625	115,890
Investments, net	7	47,992,772	46,369,903
Loans and advances, net	8	151,024,830	138,837,618
Investment in associates	9	595,493	564,769
Other real estate		227,405	235,119
Property and equipment, net	10	1,699,462	1,752,408
Other assets	11	720,641	530,009
Total assets		229,899,576	216,282,171
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	12	8,580,514	7,056,168
Negative fair value of derivatives	6	274,270	77,923
Customer deposits	13	169,822,156	154,365,549
Debt securities in issue	14	4,003,783	8,016,639
Other liabilities	15	10,444,637	8,142,899
Total liabilities		193,125,360	177,659,178
Shareholders' equity			
Share capital	16	30,000,000	30,000,000
Statutory reserve	17	5,101,613	3,922,592
Other reserves	18	58,047	686,865
Retained earnings		414,556	2,873,536
Proposed dividends	26	1,200,000	1,140,000
Total shareholders' equity		36,774,216	38,622,993
Total liabilities and shareholders' equity		229,899,576	216,282,171

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

For the years ended December 31, 2018 and 2017

	Note	2018 SAR'000	2017 SAR'000
Special commission income	20	8,332,365	7,425,107
Special commission expense	20	1,646,601	1,490,030
Net special commission income		6,685,764	5,935,077
Total fee and commission income	21	2,411,911	2,156,643
Total fee and commission expense	21	700,859	646,329
Fee and commission income, net		1,711,052	1,510,314
Exchange income, net		337,043	290,207
Trading income, net		2,717	21,815
Dividend income		57,533	50,786
Gains on disposal of non-trading investments, net	22	130,385	283,137
Other operating income	23	42,907	33,875
Total operating income, net		8,967,401	8,125,211
Salaries and employee-related expenses	24	1,765,185	1,572,514
Rent and premises-related expenses		327,607	320,498
Depreciation of property and equipment	10	296,901	282,180
Other general and administrative expenses		926,271	775,812
Impairment charge for credit losses and other provisions, net	8 (e)	927,840	1,227,488
Impairment charge for investments, net		26,870	-
Other operating expenses		31,392	23,833
Total operating expenses, net		4,302,066	4,202,325
Net operating income		4,665,335	3,922,886
Share in earnings of associates, net		50,750	23,110
Net income for the year		4,716,085	3,945,996
Basic and diluted earnings per share (in SAR)	25	1.57	1.32

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

	2018 SAR'000	2017 SAR'000
Net income for the year	4,716,085	3,945,996
Other comprehensive income (OCI):		
a) Items that will be reclassified to consolidated statement of income in subsequent periods		
- Fair value through other comprehensive income (FVOCI- debt instruments)		
- Net change in fair value	(579,105)	-
- Net amounts transferred to consolidated statement of income	(109,563)	-
- Net changes in allowance for expected credit losses of debt instruments	19,801	-
- Available for sale investments		
- Net change in fair value	-	422,221
- Net amounts transferred to consolidated statement of income upon disposal	-	(268,285)
b) Items that cannot be reclassified to consolidated statement of income in subsequent periods		
- Actuarial gains/ (losses) on defined benefit plans(note 27 b)	1,581	-
- Net change in fair value of equity instruments at fair value through other comprehensive income (FVOCI- equity instruments)	101,200	-
Other comprehensive income for the year	(566,086)	153,936
Total comprehensive income for the year	4,149,999	4,099,932

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2018 and 2017

SAR'000	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	Total
December 31, 2018						
Balance at the beginning of the year	30,000,000	3,922,592	686,865	2,873,536	1,140,000	38,622,993
Impact of adopting IFRS 9 at January 1, 2018 (Note 3.1(d))	-	-	(116,478)	(2,008,490)	-	(2,124,968)
Restated balance at the beginning of the year	30,000,000	3,922,592	570,387	865,046	1,140,000	36,498,025
Total comprehensive income						
Net changes in fair values of						
- FVOCI -equity instruments	-	-	101,200	-	-	101,200
- FVOCI -debt instruments	-	-	(579,105)	-	-	(579,105)
Net amount reclassified to the consolidated				-	-	-
statement of income for FVOCI -debt instruments	-	-	(109,563)	-	-	(109,563)
Net changes in allowance for expected credit						
losses on FVOCI -debt instruments	-	-	19,801	-	-	19,801
Actuarial gains(Note 27 (b))	-	-	1,581	-	-	1,581
Net income for the year	-	-	-	4,716,085	-	4,716,085
Total comprehensive income	-	-	(566,086)	4,716,085	-	4,149,999
Disposal loss, net on FVOCI -equity instruments	-	-	53,746	(53,746)	-	-
Final dividends - 2017 (note 26)	-	-	-	-	(1,140,000)	(1,140,000)
Interim dividend - 2018 (note 26)	-	-	-	(1,110,000)	-	(1,110,000)
Zakat for the previous years (note 26)	-	-	-	(1,193,559)	-	(1,193,559)
Zakat for the current year (note 26)	-	-	-	(430,249)	-	(430,249)
Transfer to statutory reserve (note 17)	-	1,179,021	-	(1,179,021)	-	-
Final proposed dividend - 2018 (note 26)	-	-	-	(1,200,000)	1,200,000	-
Balance at the end of the year	30,000,000	5,101,613	58,047	414,556	1,200,000	36,774,216
December 31, 2017						
Balance at the beginning of the year	30,000,000	2,936,093	532,929	2,604,039	900,000	36,973,061
Total comprehensive income						
Net change in fair value of available for sale investments	-	-	422,221	-	-	422,221
Net amounts relating to available for sale investments transferred to consolidated statement of income upon disposal	-	-	(268,285)	-	-	(268,285)
Net income for the year	-	-	-	3,945,996	-	3,945,996
Total comprehensive income	-	-	153,936	3,945,996	-	4,099,932
Final dividends - 2016	-	-	-	-	(900,000)	(900,000)
Interim dividend - 2017(note 26)	-	-	-	(1,050,000)	-	(1,050,000)
Provision for zakat (note 26)	-	-	-	(500,000)	-	(500,000)
Transfer to statutory reserve (note 17)	-	986,499	-	(986,499)	-	-
Final proposed dividend - 2017 (note 26)	-	-	-	(1,140,000)	1,140,000	-
Balance at the end of the year	30,000,000	3,922,592	686,865	2,873,536	1,140,000	38,622,993

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

	Note	2018 SAR'000	2017 SAR'000
OPERATING ACTIVITIES			
Net income for the year		4,716,085	3,945,996
Adjustments to reconcile net income for the year to net cash from operating activities:			
Accretion of discounts and amortisation of premium, net on non-FVIS instruments, net		(53,358)	(55,606)
Gains on non-trading investments, net		(130,385)	(283,137)
Gains on trading investments, net		178	(4,232)
Dividend income		(57,533)	(50,786)
Depreciation of property and equipment	10	296,901	282,180
Share in earnings of associates, net		(50,750)	(23,110)
Impairment charge for investments, net		26,870	-
Impairment charge for credit losses and other provisions, net		927,840	1,227,488
		5,675,848	5,038,793
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		(648,599)	221,760
Due from banks and other financial institutions maturing after three months from date of acquisition		87,064	(2,200,000)
Positive fair value of derivatives		(170,735)	73,405
Fair value through income statement (FVIS)		865,853	(300,000)
Loans and advances, net		(14,551,201)	2,844,261
Other real estate		7,714	9,898
Other assets		(190,632)	347,657
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		1,524,346	(1,780,545)
Negative fair value of derivatives		196,347	(60,715)
Customer deposits		15,456,607	(2,317,989)
Other liabilities		691,051	706,409
Net cash from operating activities		8,943,663	2,582,934
INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments not held as FVIS instruments		25,094,685	18,495,446
Purchase of investments not held as FVIS instruments		(27,966,717)	(18,855,071)
Purchase of property and equipment, net		(243,955)	(172,239)
Net cash used in investing activities		(3,115,987)	(531,864)
FINANCING ACTIVITIES			
Repayment of debt securities in issue		(4,000,000)	-
Dividend and zakat paid		(2,907,980)	(1,982,187)
Cash used in financing activities		(6,907,980)	(1,982,187)
Net (decrease) increase in cash and cash equivalents		(1,080,304)	68,883
Cash and cash equivalents at beginning of the year		16,151,643	16,082,760
Cash and cash equivalents at end of the year	28	15,071,339	16,151,643
Special commission received during the year		8,156,702	7,327,389
Special commission paid during the year		1,667,443	1,557,748
Supplemental non-cash information			
Net changes in fair value and transfers to consolidated statement of income		(587,468)	153,936

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

1. GENERAL

Riyad Bank ("The Bank") is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia, formed pursuant to the Royal Decree and the Council of Ministers' Resolution No. 91 dated 1 Jumad Al-Awal 1377H (corresponding to November 23, 1957G). The Bank operates under commercial registration No. 1010001054 dated 25 Rabi Al-Thani 1377H (corresponding to November 18, 1957G) through its 340 branches (2017: 340 branches) in the Kingdom of Saudi Arabia, a branch in London-United Kingdom, an agency in Houston-United States, and a representative office in Singapore. The number of the Group's employees stood at 5,973 as at December 31, 2018 (2017: 6,332). The Bank's Head Office is located at the following address:

Riyad Bank
King Abdulaziz Road – Al-Murabba District
P.O. Box 22622
Riyadh 11416
Kingdom of Saudi Arabia

The objective of the Bank is to provide a full range of banking and investment services. The Bank also provides to its customers Islamic (non-special commission based) banking products which are approved and supervised by an independent Shariah Board established by the Bank.

The consolidated financial statements comprise the financial statements of Riyad Bank and its wholly owned subsidiaries (the Bank and the subsidiaries are collectively referred to as "the Group"), a) Riyad Capital (engaged in investment services and asset management activities related to dealing, managing, arranging, advising and custody of securities regulated by the Capital Market Authority), b) Ithra Al-Riyad Real Estate Company (formed with the objective to hold, manage, sell and purchase real estate assets for owners or third parties for financing activities); c) Riyad Company for Insurance Agency (which acts as an agent for selling insurance products owned and managed by another principal insurance company), incorporated in the Kingdom of Saudi Arabia; d) Curzon Street Properties Limited incorporated in the Isle of Man; and e) Riyad Financial Markets incorporated in the Cayman Islands - a netting and bankruptcy jurisdiction country, to execute derivative transactions with international counterparties on behalf of Riyad Bank.

On December 24, 2018, the Board of Directors' passed resolution to enter into preliminary merger negotiations with the National Commercial Bank. If the deal materialises, it would be subject to necessary approvals of the relevant regulatory bodies in Saudi Arabia and the approval of the extraordinary general assembly of both Banks.

2. BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements of the Group have been prepared;

- in accordance with 'International Financial Reporting Standards (IFRS) as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax', which requires, adoption of all IFRSs as issued by the International Accounting Standards Board ("IASB") except for the application of International Accounting Standard (IAS) 12 - "Income Taxes" and IFRIC 21 - "Levies" so far as these relate to zakat and income tax; and
- in compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and by-laws of the Bank.

2. BASIS OF PREPARATION (continued)

b) Basis of measurement and presentation

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives, FVIS and FVOCI investments. In addition, financial assets and liabilities that are carried at cost but are hedged in a fair value hedging relationship are carried at fair value to the extent of the risk being hedged.

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

c) Functional and presentation currency

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

d) Critical accounting judgements, estimates and assumptions

The preparation of these consolidated financial statements in conformity with IFRS requires the management to use certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Such judgements, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

i) Impairment losses on financial assets

The measurement of impairment losses under both IFRS 9 and IAS 39 on the applicable categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

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

- The Group's internal credit grading model, which assigns PDs to the individual grades
- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime ECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models (note 30.3 (b) (v)).

2. BASIS OF PREPARATION (continued)

d) Critical accounting judgements, estimates and assumptions(continued)

ii) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions, that market participants would use, when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised at fair value in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2. BASIS OF PREPARATION (continued)

d) Critical accounting judgements, estimates and assumptions (continued)

iii) Determination of control over investees

Investment funds

The Group acts as Fund Manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the Fund (comprising any carried interests and expected management fees) and the investor's rights to remove the Fund Manager. As a result the Group has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated these funds.

Special Purpose Entities (SPEs)

The Group is party to certain SPEs, primarily to facilitate Shariah compliant financing arrangements. The exposures to these entities are included in the Group's loans and advances portfolio.

iv) Defined benefit scheme

The Group operates an End of service benefit scheme for its employees based on the prevailing Saudi Labor laws. The liability is being accrued based on projected unit credit method in accordance with the periodic actuarial valuation. For details of assumptions and estimate please refer note 27.

v) Fee income

The Group charges administrative fee upfront on borrowers, on loan financing. Due to large volume of transactions with mostly individually insignificant fee amounts, management uses certain assumptions and judgments in relation to the recognition of such fee which are recorded within 'fee and commission income, net'.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Changes in accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2017 except for the adoption of the following new standards and other amendments to existing standards and a new interpretation mentioned below. Except for adoption of IFRS 9 these amendments and adoption had no material impact on the consolidated financial statements of the Group on the current period or prior periods and is expected to have an insignificant effect in future periods and disclosures pertaining to adoption of IFRS 9 are disclosed in note 3.1.

3.1 ADOPTION OF NEW STANDARDS

Effective from January 1, 2018, the Group has adopted two new accounting standards, the impact of the adoption of these standards is explained below:

IFRS 15 Revenue from Contracts with Customers

The Group adopted IFRS 15 'Revenue from Contracts with Customers' resulting in a change in its revenue recognition policy in relation to its contracts with customers.

IFRS 15 was issued in May 2014 and is effective for annual periods commencing on or after January 1, 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which is found currently across several Standards and Interpretations within IFRS. It established a new five-step model that applies to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has opted for the modified retrospective application permitted by IFRS 15 upon adoption of the new standard. Modified retrospective application requires the recognition of the cumulative impact of adoption of IFRS 15 on all contracts as at January 1, 2018, in equity.

Impact of adoption of IFRS 15 is not material to the consolidated financial statements.

IFRS 9 – Financial Instruments

The Group has adopted IFRS 9 - Financial Instruments issued in July 2014 with a date of initial application of January 1, 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As permitted by IFRS 9, the Group has elected to continue to apply the hedge accounting requirements of IAS 39.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 ADOPTION OF NEW STANDARDS (continued)

The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarized below.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost ("AC"), fair value through other comprehensive income ("FVOCI") and Fair value through income statement ("FVIS"). This classification is generally based, except equity instruments and derivatives, on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Group classifies financial assets under IFRS 9, see respective section of significant accounting policies.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognized in income statement, under IFRS 9 fair value changes are presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the issuer is presented in OCI; and
- The remaining amount of change in the fair value is presented in consolidated statement of income.

For an explanation of how the Group classifies financial liabilities under IFRS 9, see respective section of significant accounting policies.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model ("ECL"). IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVIS, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset. POCI assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the ECLs.

Under IFRS 9, credit losses are recognized earlier than under IAS 39. For an explanation of how the Group applies the impairment requirements of IFRS 9, see respective section of significant accounting policies.

<u>IFRS 7R</u>

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures was updated and the Group has adopted it, together with IFRS 9, for the year beginning January 1, 2018. Changes include transition disclosures as shown in note 3.1, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in note 30.3 b).

Explanation for movement from opening to closing ECL allowances are presented in notes 5 b), 7 d) and 8 b).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 ADOPTION OF NEW STANDARDS (continued)

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and other reserves as at January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

i) The determination of the business model within which a financial asset is held.

ii) The designation and revocation of previous designated financial assets and financial liabilities as measured at FVIS.

iii) The designation of certain investments in equity instruments not held for trading as FVOCI.

It is assumed that the credit risk has not increased significantly for those debt securities which carry low credit risk at the date of initial application of IFRS 9.

a) The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets and financial liabilities as at January 1, 2018.

SAR in 000s	Original classification under IAS 39	New classification under IFRS 9	Original carrying value under IAS 39	New carrying value under IFRS 9
Financial assets				
Cash and balances with SAMA	Loans and receivables	Amortised Cost	18,504,255	18,501,026
Due from banks and other financial institutions	Loans and receivables	Amortised Cost	9,372,200	9,367,478
Positive fair value derivatives	FVIS	FVIS	115,890	115,890
Loans and advances, net	Loans and receivables	Amortised Cost	138,837,618	137,411,556
Investment securities –debt	Available for sale	FVOCI	12,224,295	12,224,295
Investment securities – debt	Available for sale	FVIS	884,900	884,900
Investment securities – debt	Amortised Cost	Amortised Cost	31,436,344	31,399,298
Investment securities – equity	Available for sale	FVOCI	1,520,604	1,520,604
Investment securities – equity	Held for Trading	FVIS	303,760	303,760
Other assets – receivables	Amortised Cost	Amortised Cost	530,009	530,009
			213,729,875	212,258,816
Financial liabilities				
Due to banks and other financial institutions	Amortised Cost	Amortised Cost	7,056,168	7,056,168
Negative fair value derivatives	FVIS	FVIS	77,923	77,923
Customer deposits	Amortised Cost	Amortised Cost	154,365,549	154,365,549
Debt securities in issue	Amortised Cost	Amortised Cost	8,016,639	8,016,639
Other liabilities	Amortised Cost	Amortised Cost	8,142,899	8,796,808
			177,659,178	178,313,087

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 ADOPTION OF NEW STANDARDS (continued)

b) The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on January 1, 2018.

SAR 000s	Note	IAS 39 carrying amount as at December 31, 2017	Re-classification	Re-measurement (ECL)	IFRS 9 carrying amount as at January 1, 2018
Financial assets					
Amortised cost					
Cash and balances with SAMA	4	18,504,255	-	(3,229)	18,501,026
Due from banks and other financial institutions	5	9,372,200	-	(4,722)	9,367,478
Loans and advances, net	8	138,837,618	-	(1,426,062)	137,411,556
Investment securities - debt, net	7	31,436,344	-	(37,046)	31,399,298
Other assets		530,009	-	-	530,009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 ADOPTION OF NEW STANDARDS (continued)

b) The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on January 1, 2018.

SAR 000s	IAS 39 carrying amount as at December 31, 2017	Reclassification	Re-measurement (ECL)	IFRS 9 carrying amount as at January 1, 2018
Financial assets				
Available for sale				
December 31, 2017	14,629,799	-	-	14,629,799
Transferred to:				
FVOCI – equity	-	(1,520,604)	-	(1,520,604)
FVOCI – debt	-	(12,224,295)	-	(12,224,295)
FVIS	-	(884,900)	-	(884,900)
January 1, 2018	14,629,799	(14,629,799)	-	-
FVOCI - equity				
December 31, 2017	-	-	-	-
From available for sale	-	1,520,604	-	1,520,604
January 1, 2018	-	1,520,604	-	1,520,604
FVOCI - debt				
December 31, 2017	-	-	-	-
From available for sale	-	12,224,295	-	12,224,295
January 1, 2018	-	12,224,295	-	12,224,295
FVIS				
Investment:				
December 31, 2017	303,760	-	-	303,760
From available for sale	-	884,900	-	884,900
January 1, 2018	303,760	884,900	-	1,188,660
Positive fair value of derivatives	115,890	-	-	115,890
January 1, 2018	115,890	-	-	115,890
Financial liabilities				
Amortised cost				
Due to banks and other financial institutions	7,056,168	-	-	7,056,168
Customers' deposits	154,365,549	-	-	154,365,549
Debt securities in issue	8,016,639	-	-	8,016,639
Other liabilities	8,142,899	-	653,909	8,796,808
Total amortised cost	177,581,255	-	653,909	178,235,164
FVIS				
Negative fair value of derivatives	77,923	-	-	77,923
January 1, 2018	77,923	-	-	77,923

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 ADOPTION OF NEW STANDARDS (continued)

c) There were no reclassifications of financial assets and financial liabilities into amortised cost under IFRS 9.

d) Impact on retained earnings and other reserves

The following table shows the effects of the reclassification and remeasurement of financial assets and financial liabilities from IAS 39 categories under IFRS 9.

	Retained	Other reserves
Closing balance under IAS 39 (December 31, 2017)	2,873,536	686,865
Reclassifications under IFRS 9*	171,761	(171,761)
Recognition of expected credit losses under IFRS 9	(2,180,251)	55,283
Opening balance under IFRS 9 (January 1, 2018)	865,046	570,387

* This comprise of reclassification of AFS instruments to FVIS

e) Reconciliation of impairment allowance

The reconciliation of closing impairment allowance for financial assets in accordance with IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets as at December 31, 2017 to the opening ECL allowance determined in accordance with IFRS 9 as at January 1, 2018 is set out below.

	December 31, 2017 (IAS 39 / IAS 37)	Re-classification	Re-measurement	January 1, 2018 (IFRS 9)
Loans and receivables (IAS 39)/Financial assets at amortised cost (IFRS-9)				
Cash and balances with SAMA	-	-	3,229	3,229
Due from banks and other financial institutions	-	-	4,722	4,722
Investments, net	-	-	37,046	37,046
Loans and advances, net	2,084,926	-	1,426,062	3,510,988
Total	2,084,926	-	1,471,059	3,555,985
Investment, net - FVOCI - debt (IFRS-9)	-	-	55,283	55,283
Loan commitments and financial guarantee contracts	-	-	653,909	653,909
Total	-	-	709,192	709,192

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 ADOPTION OF NEW STANDARDS (continued)

f) The following table provides carrying value of financial assets and financial liabilities in the statement of financial position as of December 31, 2018

	Mandatorily at FVIS	FVOCI – debt instruments	FVOCI – equity	Amortised cost	Total carrying amount
Financial assets					
Cash and balances with SAMA	-	-	-	16,323,172	16,323,172
Due from banks and other financial institutions	-	-	-	11,029,176	11,029,176
Positive fair value of derivatives	286,625	-	-	-	286,625
Investments, net	393,272	12,730,942	1,995,329	32,873,229	47,992,772
Loans and advances, net	-	-	-	151,024,830	151,024,830
Other assets	-	-	-	720,641	720,641
Total financial assets	679,897	12,730,942	1,995,329	211,971,048	227,377,216
Financial liabilities					
Due to banks and other financial institutions	-	-	-	8,580,514	8,580,514
Negative fair value of derivatives	274,270	-	-	-	274,270
Customer deposits	-	-	-	169,822,156	169,822,156
Debt securities in issue	-	-	-	4,003,783	4,003,783
Other liabilities	-	-	-	10,444,637	10,444,637
Total financial liabilities	274,270	-	-	192,851,090	193,125,360

The following table provides carrying value of financial assets and financial liabilities in the statement of financial position as of December 31, 2017

	Trading	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount
Financial assets					
Cash and balances with SAMA	-	-	-	18,504,255	18,504,255
Due from banks and other financial institutions	-	-	-	9,372,200	9,372,200
Positive fair value of derivatives	115,890	-	-	-	115,890
Investments, net	303,760	-	14,629,799	31,436,344	46,369,903
Loans and advances, net	-	138,837,618	-	-	138,837,618
Other assets	-	-	-	530,009	530,009
Total financial assets	419,650	138,837,618	14,629,799	59,842,808	213,729,875
Financial liabilities					
Due to banks and other financial institutions	-	-	-	7,056,168	7,056,168
Negative fair value of derivatives	77,923	-	-	-	77,923
Customers' deposits	-	-	-	154,365,549	154,365,549
Debt securities in issue	-	-	-	8,016,639	8,016,639
Other liabilities	-	-	-	8,142,899	8,142,899
Total financial liabilities	77,923	-	-	177,581,255	177,659,178

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 POLICIES APPLICABLE FROM JANUARY 1, 2018

a) Classification of financial assets

On initial recognition, the Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

i) Financial Asset at amortised cost (AC)

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVIS:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI test).

ii) Financial Asset at FVOCI

Debt instrument : A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVIS:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Equity Instruments: On initial recognition, for an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. Equity instruments at FVOCI are not subject to an impairment assessment.

iii) Financial Asset at FVIS

Financial assets at FVIS comprise derivative instruments, quoted equity instruments held for trading and debt securities classified neither as AC nor FVOCI. In addition, on initial recognition, the Group may irrevocably designate a financial asset as FVIS, that otherwise meets the requirements to be measured at amortised cost or at FVOCI, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets are not reclassified subsequent to their initial recognition, except if the Group changes its business model for managing financial assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 POLICIES APPLICABLE FROM JANUARY 1, 2018 (continued)

a) Classification of financial assets (continued)

The details of business model assessment and SPPI test are explained below.

Business model assessment

The Group assesses the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

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

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

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

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

As a second step of its classification process the Group assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money- e.g. periodical reset of interest rates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 POLICIES APPLICABLE FROM JANUARY 1, 2018 - continued

b) Classification of financial liabilities

All money market deposits, customer deposits, term loans, subordinated debts and other debt securities in issue are initially recognised at fair value less transaction costs. Financial liabilities at FVIS are recognised initially at fair value and transaction costs are taken directly to the statement of income. Subsequently all commission-bearing financial liabilities other than those held at FVIS or where fair values have been hedged are measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium. Premiums are amortised and discounts accreted on an effective yield basis to maturity and taken to special commission expense.

c) Derecognition

i) - Financial assets

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

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

From January 1, 2018, any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognized as a separate asset or liability.

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

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

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

Before January 1, 2018, retained interests were primarily classified as available for sale investment securities and measured at fair value.

ii) -Financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 POLICIES APPLICABLE FROM JANUARY 1, 2018 (continued)

d) Modifications of financial assets and financial liabilities

i) Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized with the difference recognized as a de-recognition gain or loss and a new financial asset is recognized at fair value.

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

ii) Financial liabilities

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

e) Impairment

The Group recognizes loss allowances for ECL on the following financial instruments that are not measured at FVIS:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognized on equity investments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 POLICIES APPLICABLE FROM JANUARY 1, 2018 (continued)

e) Impairment - (continued)

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

12 month ECL is the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL

ECL is a probability-weighted estimate of credit losses. They are measured as follows:

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

Restructured financial assets

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

- If the expected restructuring will not result in derecognition of the existing asset, and then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

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

Evidence that a financial asset is credit-impaired includes the following observable data:

- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise ;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 POLICIES APPLICABLE FROM JANUARY 1, 2018 (continued)

e) Impairment - (continued)

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors.

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

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

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

Write-off

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 POLICIES APPLICABLE FROM JANUARY 1, 2018 (continued)

f) Financial guarantees and loan commitments

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

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

- from January 1, 2018: at the higher of this unamortised amount and the amount of loss allowance; and
- before January 1, 2018: at the higher of this unamortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

The Group has issued no loan commitments that are measured at FVIS. For other loan commitments:

- from January 1, 2018: the Group recognizes loss allowance based on the ECL requirement.
- before January 1, 2018: the Group recognizes a provision in accordance with IAS 37 if the contract was considered to be onerous.

g) Revenue / expenses recognition

Special commission income and expenses

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 POLICIES APPLICABLE FROM JANUARY 1, 2018 (continued)

g) Revenue / expenses recognition - continued

Measurement of amortized cost and special commission income

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

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

h) Rendering of services

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

The Group has concluded that revenue from rendering of various services related to share trading and fund management, trade finance, corporate finance and advisory and other banking services, should be recognized at the point when services are rendered i.e. when performance obligation is satisfied.

i) Customer Loyalty Program

The Group offers customer loyalty program (reward points herein referred to as ”Hassad points”), which allows its customers to earn points that can be redeemed for certain partner outlets. The Group allocates a portion of transaction price (interchange fee) to the Hassad points awarded to its customers, based on the relative standalone selling price. The amount of revenue allocated to Hassad points is deferred and released to the consolidated statement of income when reward points are redeemed. The cumulative amount of contract liability related to unredeemed Hassad points is adjusted over time based on actual experience and current trends with respect to redemption.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 POLICIES APPLICABLE BEFORE ADOPTION OF IFRS 9

a) Investments

All investment securities are initially recognised at fair value, including incremental direct transaction cost except for investments held as Fair Value through Income Statement (FVIS), where incremental direct transaction cost are charged to consolidated statement of income, and are subsequently accounted for depending on their classification as either held to maturity, FVIS, Available for sale or other investments held at amortised cost. Premiums are amortised and discounts accreted using the effective yield basis and are taken to special commission income.

For securities traded in organised financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the reporting date. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values, which approximate fair values.

For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows of the security. Where the fair values cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models if possible. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

Following recognition, subsequent transfers between the various classes of investments are not ordinarily permissible except in accordance with IAS 39. The subsequent period-end reporting values for each class of investment are determined on the basis as set out in the following paragraphs:

i) Held as FVIS

Investments in this category are classified at initial recognition as either investment held for trading or those upon initial recognition designated as FVIS. Investments classified as trading are acquired principally for the purpose of selling or repurchasing in short term.

After initial recognition, investments at FVIS are measured at fair value and any change in the fair value is recognised in the consolidated statement of income for the period in which it arises. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVIS investments and are instead charged to the consolidated statement of income. Special commission income and dividend income on investment securities held as FVIS are reflected as trading income.

ii) Available for sale

Available for sale investments are non-derivative financial instruments and include equity and debt securities that are either designated as Available for sale or not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through income statement. Available for sale investments are those equity and debt securities intended to be held for an unspecified period of time, which may be sold in response to need for liquidity or changes in special commission rates, exchange rates or equity prices. Investments, which are classified as “Available for sale”, are subsequently measured at fair value. For an available for sale investment where the fair value has not been hedged, any gain or loss arising from a change in its fair value is recognised directly in other comprehensive income, except for impairment, which is recognised in the consolidated statement of income. On derecognition, any cumulative gain or loss previously recognised in other comprehensive income is included in the consolidated statement of income.

iii) Other investments held at amortised cost

Investment securities with fixed or determinable payments that are not quoted in an active market are classified as “Other investments held at amortised cost”. Such investments whose fair values have not been hedged are stated at amortised cost on an effective yield basis, less provision for impairment. Any gain or loss is recognised in the consolidated statement of income when the investment is derecognised or impaired.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 POLICIES APPLICABLE BEFORE ADOPTION OF IFRS 9 (continued)

a) Investments (continued)

iv) Held to maturity

Investments having fixed or determinable payments and fixed maturity and that the Group has the positive intention and ability to hold to maturity, are classified as held to maturity. Held to maturity investments are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at amortised cost, less allowance for impairment in their value. Held to maturity investments are subsequently measured at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any discount or premium on acquisition using an effective yield basis. Any gain or loss on such investments is recognised in the consolidated statement of income when the investment is derecognised or impaired.

Investments classified as held to maturity cannot ordinarily be sold or reclassified without impacting the Group's ability to use this classification and cannot be designated as a hedged item with respect to commission rate or prepayment risk, reflecting the longer-term nature of these investments.

b) Loans and advances

Loans and advances are non-derivative financial assets originated or acquired by the Group with fixed or determinable payments. Loans and advances are recognised when cash is advanced to borrowers.

All loans and advances are initially measured at fair value, including directly attributable transaction costs associated with the loans and advances. Loans and advances originated or acquired by the Group that are not quoted in an active market, are stated at amortised cost. They are derecognised when either borrower repays their obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred. For presentation purposes, allowance for credit losses is deducted from loans and advances.

c) Classification of financial liabilities

All money market deposits, customers' deposits and debt securities issued are initially recognised at cost, net of transaction charges, being the fair value of the consideration received. Subsequently, all commission bearing financial liabilities, are measured at amortised cost by taking into account any discount or premium. Premiums are amortised and discounts are accreted on an effective yield basis to maturity and taken to special commission expense.

d) Revenue recognition

Special commission income and expense

Special commission income and expense for all special commission bearing financial instruments, except for those classified as held for trading or designated at fair value through income statement (FVIS), are recognised in the consolidated statement of income using the effective yield basis. The effective yield is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective special commission rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective special commission rate and the change in carrying amount is recorded as special commission income or expense.

If the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, special commission income continues to be recognised using the original effective yield applied to the new carrying amount.

The calculation of the effective yield includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective special commission rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial asset or liability.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 POLICIES APPLICABLE BEFORE ADOPTION OF IFRS 9 (continued)

e) Impairment of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a financial asset or group of financial assets carried at amortised cost may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised for changes in its carrying amounts.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on the terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of active market for a security or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers.

It may also include instances where Group considers that the obligor is unlikely to pay its credit obligations to the Group, in full, without recourse by the Group to actions such as realizing the security, if held.

When a financial asset is uncollectible, it is written off against the related provision for impairment either directly by a charge to consolidated statement of income or through impairment allowance account. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted, and the amount of the loss has been determined.

Once a financial asset has been written down to its estimated recoverable amount, special commission income is thereafter recognised based on the rate of special commission that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated statement of income in impairment charge for credit losses.

Loans whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. Restructuring policies and practices are based on indicators or criteria, which indicate that payments, will most likely continue. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective yield rate. Consumer loans are charged off when they become 180 days past due except in the case of secured consumer loans. The Group individually assesses consumer mortgage loans for impairment when they become 180 days past due and required provisions are made.

Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Group offers a revised rate of commission to genuinely distressed borrowers. This results in the asset continuing to be overdue and individually impaired as the renegotiated payments of commission and principal do not recover the original carrying amount of the loan. In other cases, renegotiation lead to a new agreement, this is treated as a new loan. Restructuring policies and practices are based on indicators or criteria which, indicate that payment will most likely continue. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective yield rate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 POLICIES APPLICABLE BEFORE ADOPTION OF IFRS 9 (continued)

e) Impairment of financial assets (continued)

i) Impairment of financial assets held at amortised cost

In case of financial instruments held at amortised cost or held to maturity, the Group assesses individually whether there is objective evidence of impairment based on same criteria as explained above.

A specific provision for credit losses due to impairment of a loan or any other financial asset held at amortised cost is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the specific provision is the difference between the carrying amount and the estimated recoverable amount. The estimated recoverable amount is the present value of expected cash flows, including amounts estimated to be recoverable from guarantees and collateral, discounted based on the original effective yield rate.

The Group also considers evidence of impairment at a collective assets level. The collective provision is based on deterioration in the internal grading or external credit ratings, allocated to the borrower or group of borrowers, the current economic climate in which the borrowers operate and the experience and historical default patterns that are embedded in the components of the credit portfolio.

ii) Impairment of available for sale financial assets

In the case of debt instruments classified as available for sale, the Group assesses individually whether there is objective evidence of impairment based on the same criteria as explained above. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to credit event occurring after the impairment loss was recognised in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

For equity investments held as available for sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment. The impairment loss, recorded against available for sale equity instrument, cannot be reversed through consolidated statement of income as long as the asset continues to be recognised i.e. any increase in fair value after impairment has been recorded can only be recognised in equity. On derecognition, any cumulative gain or loss previously recognised in shareholders' equity is included in the consolidated statement of income for the year.

f) Derecognition of financial instruments

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognised, when the contractual rights to receive the cash flows from the financial asset expires or the asset is transferred and the transfer qualifies for de-recognition.

In instances where the Group is assessed to have transferred a financial asset, the asset is derecognised if the Group has transferred substantially all the risks and rewards of ownership. Where the Group has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognised only if the Group has not retained control of the financial asset. The Group recognises separately as assets or liabilities any rights and obligations created or retained in the process.

A financial liability (or a part of a financial liability) can only be derecognised when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expires.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 POLICIES HAVING NO CHANGE DURING 2018

a) Basis of consolidation

These annual consolidated financial statements comprise the financial statements of Riyad Bank and its subsidiaries drawn up to December 31, each year. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies.

Investment funds

The Group acts as Fund Manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the Fund (comprising any carried interests and expected management fees) and the investors' rights to remove the Fund Manager. As a result the Group has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated any of these funds.

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

Balances between the Group and its subsidiaries, and any income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

Generally, there is a presumption that a majority of voting rights results in control. However, under individual circumstances, the Group may still exercise control with less than 50% shareholding or may not be able to exercise control even with ownership over 50% of an entity's shares. When assessing whether it has power over an investee and therefore controls the variability of its returns, the Group considers all relevant facts and circumstances, including:

- The purpose and design of the investee
- The relevant activities and how decisions about those activities are made and whether the Group can direct those activities
- Contractual arrangements such as call rights, put rights and liquidation rights
- Whether the Group is exposed, or has rights, to variable returns from its involvement with the investee, and has the power to affect the variability of such returns

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest (NCI) and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value at the date of loss of control.

The Group is party to certain special purpose entities (SPEs), primarily for the purpose of facilitation of certain Shariah compliant financing arrangements. The Group concluded that these entities cannot be consolidated in its financial statements as it could not establish control over these SPEs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 POLICIES HAVING NO CHANGE DURING 2018 (continued)

b) Investment in associates

Investments in associates are carried in the consolidated statement of financial position at cost, plus post-acquisition changes in the Group's share of net assets of the associate, less any impairment in the value of individual investments. Investments in associates are initially recognized at cost and subsequently accounted for under the equity method of accounting. An associate is an entity in which the Group holds has significant influence (but not control), over financial and operating policies and which is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The Group's share of its associates' post-acquisition profits or losses are recognized in the consolidated statement of income, and its share of post-acquisition movements in other comprehensive income is recognized in reserves. Distribution received from the investee reduces the carrying amount of the investment. Under the equity method of accounting, the investment in the associate is carried on the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. The Group's share of profit of an associate is shown on the face of the consolidated statement of income.

c) Derivative financial instruments and hedge accounting

As permitted by IFRS 9, the Group has elected to continue to apply the hedge accounting requirements of IAS 39.

Derivative financial instruments, including foreign exchange contracts, special commission rate swaps and currency options (both written and purchased), are initially recognised at fair value on the date on which the derivative contract is entered into, with transaction costs recognised in the consolidated statement of income and, are subsequently re-measured at fair value. All derivatives are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models and pricing models, as appropriate. The treatment of changes in their fair value depends on their classification into the following categories:

i) Derivatives held for trading

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to the consolidated statement of income and disclosed in trading income/ loss. Derivatives held for trading also include those derivatives, which do not qualify for hedge accounting described below.

ii) Hedge accounting

The Group designates certain derivatives as hedging instruments in qualifying hedging relationships.

For the purpose of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the reported net gain or loss; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability, or to a highly probable forecasted transaction that will affect the reported net gain or loss.

In order to qualify for hedge accounting, the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At the inception of the hedge, the risk management objective and strategy is documented, including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Group will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 POLICIES HAVING NO CHANGE DURING 2018 (continued)

c) Derivative financial instruments and hedge accounting (continued)

(ii) Hedge accounting (continued)

(a) Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect the consolidated statement of income, any gain or loss from re-measuring the hedging instruments to fair value is recognised immediately in the consolidated statement of income. The related portion of the hedged item is adjusted against the carrying amount of the hedged item and recognised in the consolidated statement of income. For hedged items measured at amortised cost, where the fair value hedge of a special commission bearing financial instrument ceases to meet the criteria for hedge accounting or is sold, exercised or terminated, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the effective yield basis. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated statement of income.

(b) Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of a variability of cash flows attributable to a particular risk associated with a recognised asset or a liability or a highly probable forecasted transaction that could affect consolidated statement of income, the portion of the gain or loss on the hedging instrument that is determined to be an effective portion is recognised directly in other comprehensive income and the ineffective portion, if any, is immediately recognised in the consolidated statement of income. For cash flow hedges affecting future transactions, the gains or losses recognised in other reserves, are transferred to the consolidated statement of income in the same period in which the hedged transaction affects the consolidated statement of income. Where the hedged forecasted transaction results in the recognition of a non- financial asset or a non-financial liability, then at the time such asset or liability is recognised the associated gains or losses that had previously been recognised directly in other comprehensive income are included in the initial measurement of the acquisition cost or other carrying amount of such asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting, or the forecast transaction is no longer expected to occur or the Group revokes the designation. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognised in other comprehensive income is retained until the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to the consolidated statement of income for the period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 POLICIES HAVING NO CHANGE DURING 2018 (continued)

d) Foreign currencies

The Group's consolidated financial statements are presented in Saudi Arabian Riyals, which is also the Group's functional currency. Transactions in foreign currencies are translated into Saudi Arabian Riyals at spot exchange rates prevailing on the transaction dates. Monetary assets and liabilities at the year-end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the reporting date. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income. Non-monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value is determined. Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment either in the consolidated statement of income or in equity, depending on the recognition of the fair value movement of the underlying financial asset.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the dates of the initial transactions.

The assets and liabilities of overseas branch are translated at the spot exchange rate at the reporting date. The income and expenses of overseas branch are translated at the average exchange rates for the year. All exchange differences, if significant, are recognised in other comprehensive income. These differences are transferred to consolidated statement of income at the time of disposal of foreign operations.

e) Offsetting financial instruments

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position when the Group has a legal currently enforceable right to set off the recognised amounts and when the Group intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expenses are not offset in the consolidated statement of income unless required or permitted by an accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 POLICIES HAVING NO CHANGE DURING 2018 (continued)

f) Revenue recognition

i) Fee and commission income

Fee and commissions are recognised when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred, together with the related direct cost, and are recognised as an adjustment to the effective yield on the loan. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportionate basis. Fee received on asset management, wealth management, financial planning, custody services and other similar services that are provided over an extended period of time, are recognised over the period when the service is being provided.

ii) Others

Dividend income is recognised when the Group's right to receive payment is established. Results arising from trading activities include gains and losses from changes in fair value and related special commission income or expense for financial assets and financial liabilities held for trading.

g) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership and are measured in accordance with related accounting policies for investments held as FVIS, FVOCI, and held at amortised cost. The counterparty liability for amounts received under these agreements is included in "Due to banks and other financial institutions" or "Customer deposits", as appropriate. The difference between sale and repurchase prices is treated as special commission expense and is accrued over the life of the repo agreement on an effective special commission rate basis. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos), are not recognised in the consolidated statement of financial position, as the Group does not obtain control over the assets.

Amounts paid under these agreements are included in "Cash and balances with SAMA" or "Due from banks and other financial institutions" as appropriate. The difference between purchase and resale prices is treated as special commission income and accrued over the life of the reverse repo agreement on an effective yield basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 POLICIES HAVING NO CHANGE DURING 2018 (continued)

h) Other real estate

The Group, in the ordinary course of business, acquires certain real estate against settlement of due loans and advances. Such real estate properties are considered as assets held for sale and are initially stated at the lower of net realisable value of due loans and advances or the current fair value of the related properties, less any costs to sell, if material. Rental income from other real estate is recognised in the consolidated statement of income. No depreciation is charged on such real estate.

Subsequent to initial recognition, any subsequent write down to fair value, less costs to sell, is charged to the consolidated statement of income. Any subsequent gain in the fair value less costs to sell of these assets to the extent this does not exceed the cumulative write down is recognised as income together with any gain/ loss on disposal.

i) Property and equipment

Property and equipment are stated at cost and presented net of accumulated depreciation. Freehold land is not depreciated. The cost of other property and equipment is depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	33 years
Improvements and decoration of premises	over the lower of the lease period or 5 years
Furniture, fixtures and equipment	5 to 20 years
Computer hardware	5 years
Software programs and automation projects	3 to 5 years
Motor vehicles	4 years

Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred. The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. All assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Any carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in consolidated statement of income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 POLICIES HAVING NO CHANGE DURING 2018 (continued)

j) Guarantee contracts

In ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to the initial recognition, the Group's liability under each guarantee is measured at the higher of the unamortised premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees. Any increase in the liability relating to the financial guarantee is taken to the consolidated statement of income in 'impairment charge for credit losses'. The premium received is recognised in the consolidated statement of income in 'Fee and commission income, net' on a straight line basis over the life of the guarantee.

k) Provisions

Provisions are recognised when a reliable estimate can be made by the Group for a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation.

l) Accounting for leases

Leases entered into by the Group as a lessee, are operating leases. Payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

m) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents are defined as those amounts included in cash, balances with SAMA excluding statutory deposits, and due from banks and other financial institutions maturing within three months from the date of acquisition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 POLICIES HAVING NO CHANGE DURING 2018 (continued)

n) End of service benefits

Benefits payable to the employees of the Group at the end of their services are accrued in accordance with the guidelines set by the Saudi Arabian Labor Regulations or other applicable laws in other jurisdictions, and are included in other liabilities in the consolidated statement of financial position.

o) Zakat

Zakat is computed using the basis defined under the Zakat regulations. Zakat is accrued on a quarterly basis and charged to retained earnings in accordance with SAMA guidance on zakat and income tax.

p) Investment management services

The Group offers investment services to its customers, which include management of certain investment funds. Fees earned are disclosed under related party transactions. Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly, are not included in the consolidated financial statements.

q) Non-special commission based banking products

In addition to the conventional banking, the Group offers its customers certain non-special commission based banking products, which are approved by its Shariah Board. These products include Murabaha, Tawaruq and Ijara. These banking products are accounted for using IFRS, as modified by SAMA for accounting of zakat and income tax and are in conformity with the accounting policies described in these consolidated financial statements.

i) Murabaha is an agreement whereby the Group sells to a customer a commodity or an asset, which the Group has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin.

ii) Ijarah is a an agreement whereby the Group, acting as a lessor, purchases or constructs an asset for lease according to the customer request (lessee), based on his promise to lease the asset for an agreed rent and specific period that could end by transferring the ownership of the leased asset to the lessee.

iii) Tawaruq is a form of Murabaha transactions where the Group purchases a commodity and sells it to the customer. The customer sells the underlying commodity at spot and uses the proceeds for his financing requirements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 POLICIES HAVING NO CHANGE DURING 2018 (continued)

r) Short term employee benefits

Short term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short term cash bonus plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by employees and the obligation can be estimated reliably.

s) Settlement date accounting

All regular way purchases and sales of financial assets are recognised and derecognised on the settlement date, i.e. the date the asset is delivered to the counter party. The Group accounts for any change in fair value between the trade and the settlement date in the same way as it accounts for the acquired assets. Regular way purchases or sales are purchases or sales of financial instruments that require delivery of assets within the time frame generally established by regulation or convention in the market place.

4. CASH AND BALANCES WITH SAMA

	2018 SAR'000	2017 SAR'000
Cash in hand	5,212,780	5,484,534
Statutory deposit	8,588,411	7,939,812
Reverse repos with SAMA	2,459,863	5,020,000
Other balances	62,118	59,909
Total	16,323,172	18,504,255

In accordance with the Banking Control Law and regulations issued by SAMA, the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, savings, time and other deposits, calculated at the end of each month. The statutory deposit with SAMA is not available to finance the Bank's day-to-day operations and therefore is not part of cash and cash equivalents (note 28).

The loss allowance in respect of the above, amounted to SAR 0.137 million as on December 31, 2018. The allowance relate to Stage 1.

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

a)

	2018 SAR'000	2017 SAR'000
Current accounts	1,983,429	1,095,753
Money market placements	9,045,747	8,276,447
Total	11,029,176	9,372,200

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

b) Changes in loss allowance for due from banks and other financial institutions

The loss allowance as on January 1, 2018 and December 31, 2018 amounted to SAR 4.7 million (note 3.1 e) and SAR 5.2 million respectively. The allowance relates to Stage 1 and the movement during the year was marginal.

6. DERIVATIVES

In the ordinary course of business, the Group utilises the following derivative financial instruments for both trading and hedging

a) Swaps

Swaps are commitments to exchange one set of cash flows for another. For special commission rate swaps, counterparties generally exchange fixed and floating special commission rate payments in a single currency without exchanging principal. For currency swaps, principal, fixed and floating commission payments are exchanged in different currencies.

b) Forwards and futures

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and special commission rate futures are transacted in standardised amounts on regulated exchanges and changes in futures contract values are settled on daily basis.

c) Options

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at a fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price.

Held for trading purposes

Most of the Group's derivative trading activities relate to sales, positioning and arbitrage. 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. Arbitrage involves identifying pricing anomalies in different markets and products, with the expectation of profiting from price differentials between markets or products.

Held for hedging purposes

The Group has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange rates and special commission rates to reduce its exposure to currency and special commission rate risks to acceptable levels as determined by the Board of Directors within the guidelines issued by SAMA. The Board of Directors has established levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors has also established the level of special commission rate risk by setting limits on special commission rate gaps for stipulated periods. Asset and liability special commission rate gaps are reviewed on a periodic basis and if required hedging strategies are used to reduce special commission rate gap within the established limits.

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to adjust its own exposure to currency and special commission rate risks. This can be achieved by hedging specific transactions as well as strategic hedging against overall consolidated statement of financial position exposure.

6. DERIVATIVES (continued)

Held for hedging purposes (continued)

Fair value hedges

The Group uses special commission rate swaps to hedge against the special commission rate risk arising from specifically identified fixed special commission rate exposures.

Cash flow hedges

The Group is exposed to variability in future special commission cash flows on non-trading assets and liabilities which bear special commission rate at a variable rate. The Group uses special commission rate swaps as cash flow hedges of these special commission rate risks.

The table below shows the positive and negative fair values of derivative financial instruments held, together with their notional amounts, analysed by the term to maturity and monthly average. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year end, do not reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Group's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor market risk.

				Notional amounts by term to maturity				
2018 SAR'000	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Special commission rate swaps	239,364	(167,805)	31,853,110	2,526,398	7,339,354	20,428,597	1,558,761	20,498,184
Forward foreign exchange contracts	46,053	(51,631)	27,248,377	21,046,531	4,248,967	1,952,879	-	20,691,540
Currency options	1,184	(1,184)	476,362	473,103	3,259	-	-	1,602,607
Held as fair value hedges:								
Special commission rate swaps	24	(53,650)	3,428,279	147,444	450,523	2,070,143	760,169	1,261,980
Total	286,625	(274,270)	63,006,128	24,193,476	12,042,103	24,451,619	2,318,930	44,054,311

6. DERIVATIVES (continued)

2017 SAR'000	Positive fair value	Negative fair value	Notional amount total	Notional amounts by term to maturity: Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Special commission rate swaps	78,724	(45,809)	9,914,179	1,867,447	2,417,581	5,464,237	164,914	8,514,816
Forward foreign exchange contracts	30,538	(27,886)	19,767,301	15,996,453	2,593,333	1,177,515	-	24,158,787
Currency options	4,228	(4,228)	3,233,155	1,972,983	1,206,946	53,226	-	5,722,547
Held as fair value hedges:								
Special commission rate swaps	2,400	-	187,503	10,742	32,822	143,939	-	187,503
Total	115,890	(77,923)	33,102,138	19,847,625	6,250,682	6,838,917	164,914	38,583,653

The table below shows a summary of hedged items, the nature of the risk being hedged, the hedging instrument and its fair value as at December 31, 2018 and 2017.

2018 SAR '000 Description of hedged items	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
Fixed special commission rate investments and loans	3,675,675	3,622,683	Fair value	Special commission rate swaps	24	(53,650)

2017 SAR '000 Description of hedged	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
Fixed special commission rate deposits	192,868	195,269	Fair value	Special commission rate swaps	2,400	-

7. INVESTMENTS, NET

a) Investment securities are classified as follows:

	2018 SAR'000	2017 SAR'000
Investment at FVIS /HFT – Equity investments	393,272	303,760
Investment at amortised cost	32,917,341	31,436,344
Investments at FVOCI – Debt instruments	12,730,942	-
Investments at FVOCI – Equity investments	2,035,385	-
Available for sale investments (2017)	-	14,669,994
Less: Impairment	(84,168)	(40,195)
Total	47,992,772	46,369,903

b) Equity investment securities designated as at FVOCI

At January 1, 2018, the Group designated certain investments shown in the following table as equity securities at FVOCI. In 2017, these investments were classified as available-for-sale and measured at fair value. The FVOCI designation was made because the investments are expected to be held for the strategic purposes.

	Fair value as at December 31, 2018 SAR'000	Dividend income recognised during 2018 SAR'000
Saudi (Tadawul listed) equities	1,363,474	48,064
Other Saudi equities	354,627	-
Foreign equities	277,228	5,640
Total	1,995,329	53,704

During 2018, the Group sold shares in its Saudi (Tadawul listed) equities having a fair value of SAR 643.9 million and the loss amounting to SAR 53.7 million was transferred to retained earnings. The above sales were carried out as part of tactical adjustment of the portfolio to enhance value.

7. INVESTMENTS, NET (continued)

c) Investments by type of securities

SAR'000	Domestic		International		Total	
	2018	2017	2018	2017	2018	2017
Fixed rate securities	20,958,135	19,201,458	13,849,448	12,758,382	34,807,583	31,959,840
Floating rate securities	9,439,677	9,911,816	1,401,023	1,788,983	10,840,700	11,700,799
Equities	1,719,250	1,300,041	316,135	260,758	2,035,385	1,560,799
Others	392,484	702,376	788	486,284	393,272	1,188,660
Total investments	32,509,546	31,115,691	15,567,394	15,294,407	48,076,940	46,410,098
Less: impairment	(36,971)	(600)	(47,197)	(39,595)	(84,168)	(40,195)
Total	32,472,575	31,115,091	15,520,197	15,254,812	47,992,772	46,369,903

The impairment allowance on debt instruments at FVOCI amounts to SR 75.1 million(2017: SR nil).

International investments above includes investment portfolios of SAR 6.4 billion (2017: SAR 9.1 billion) which are externally managed.

d) An analysis of changes is loss allowance for debt instruments carried at amortised cost, is as follows:

The loss allowance as on January 1, 2018 amounted to SAR 37 million (note 3.1 e)and was SAR 44.1 million at December 31, 2018. The allowance relates to Stage 1 and the movement during the year was marginal.

7. INVESTMENTS, NET (continued)

e) The analysis of the composition of investments is as follows:

SAR '000	2018 Quoted	2018 Unquoted*	2018 Total	2017 Quoted	2017 Unquoted*	2017 Total
Fixed rate securities	15,566,369	19,241,214	34,807,583	12,982,228	18,977,612	31,959,840
Floating rate securities	2,515,192	8,325,508	10,840,700	2,945,421	8,755,378	11,700,799
Equities	1,706,453	328,932	2,035,385	1,204,692	356,107	1,560,799
Others	393,272	-	393,272	1,188,660	-	1,188,660
Total investments	20,181,286	27,895,654	48,076,940	18,321,001	28,089,097	46,410,098
Allowance for impairment	(20,360)	(63,808)	(84,168)	-	(40,195)	(40,195)
Investments, net	20,160,926	27,831,846	47,992,772	18,321,001	28,048,902	46,369,903

*Unquoted securities include Saudi Government Treasury Bills and bonds of SAR 21.9 billion (2017: SAR 21.6 billion)

f) The analysis of investments by counter-party is as follows:

	2018 SAR '000	2017 SAR '000
Government and quasi Government	28,414,499	28,084,559
Corporate	10,163,384	10,466,940
Banks and other financial institutions	9,414,889	7,818,404
Total	47,992,772	46,369,903

Investments include SAR 683.6 million (2017: SAR 78.3 million), which have been pledged under repurchase agreements with customers (note 19 d)). The market value of such investments is SAR 687 million (2017: SAR 78.5 million).

8. LOANS AND ADVANCES, NET

a) These comprise the following:

2018 SAR'000	Overdrafts	Credit cards	Consumer loans*	Commercial loans	Others	Total
Performing loans and advances	6,006,142	775,403	45,029,627	99,728,737	282,013	151,821,922
Non-performing loans and advances	62,817	-	243,387	1,255,233	-	1,561,437
Total loans and advances	6,068,959	775,403	45,273,014	100,983,970	282,013	153,383,359
Allowance for impairment	(71,928)	(44,456)	(923,783)	(1,317,739)	(623)	(2,358,529)
Total	5,997,031	730,947	44,349,231	99,666,231	281,390	151,024,830

2017 SAR'000	Overdrafts	Credit cards	Consumer loans*	Commercial loans	Others	Total
Performing loans and advances	6,571,229	733,646	41,611,191	90,329,203	265,118	139,510,387
Non-performing loans and advances	418,781	-	200,318	791,799	1,259	1,412,157
Total loans and advances	6,990,010	733,646	41,811,509	91,121,002	266,377	140,922,544
Allowance for impairment	(284,471)	(16,420)	(386,892)	(1,380,709)	(16,434)	(2,084,926)
Total	6,705,539	717,226	41,424,617	89,740,293	249,943	138,837,618

Loans and advances, net, include Islamic products of SAR 88,652 million (2017: SAR 75,868 million).

* Includes consumer mortgage loans

b) An analysis of changes is loss allowance for loans and advances is, as follows:

	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2018	367,358	662,765	2,480,865	3,510,988
Transfer to 12-month ECL	99,420	(6,470)	(92,950)	-
Transfer to lifetime ECL - not credit Impaired	(32,700)	45,320	(12,620)	-
Transfer to lifetime ECL - credit Impaired	(5,527)	(67,392)	72,919	-
Net re-measurement of loss allowance**	(127,090)	33,318	(1,058,687)	(1,152,459)
Balance as at December 31, 2018	301,461	667,541	1,389,527	2,358,529

** Includes charge-offs (consumer loans and credit cards) and write-offs (consumer mortgage, commercial, overdrafts and others)

The significant movement in ECL was due to re-measurement of ECL on commercial loans written-off during the year. The ECL for written-off loans was SAR 1,446.2 million at the beginning of the year which was re-measured during the year to SAR 2,134 million before the loans were written-off.

8. LOANS AND ADVANCES, NET (continued)

b) An analysis of changes is loss allowance for Loans and Advances (continued)

Credit cards	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2018	22,806	5,283	23,263	51,352
Transfer to 12-month ECL	1,557	(337)	(1,220)	-
Transfer to lifetime ECL - not credit Impaired	(787)	1,035	(248)	-
Transfer to lifetime ECL - credit Impaired	(548)	(1,949)	2,497	-
Net re-measurement of loss allowance including charge-offs	(9,016)	647	1,473	(6,896)
Balance as at December 31, 2018	14,012	4,679	25,765	44,456

Consumer loans*	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2018	176,565	227,768	323,998	728,331
Transfer to 12-month ECL	10,585	(3,396)	(7,189)	-
Transfer to lifetime ECL - not credit Impaired	(10,720)	14,021	(3,301)	-
Transfer to lifetime ECL - credit Impaired	(3,544)	(60,512)	64,056	-
Net re-measurement of loss allowance including charge/ write-offs	(4,910)	81,150	119,212	195,452
Balance as at December 31, 2018	167,976	259,031	496,776	923,783

Commercial loans**	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2018	167,987	429,714	2,133,604	2,731,305
Transfer to 12-month ECL	87,278	(2,737)	(84,541)	-
Transfer to lifetime ECL - not credit Impaired	(21,193)	30,264	(9,071)	-
Transfer to lifetime ECL - Credit Impaired	(1,435)	(4,931)	6,366	-
Net re-measurement of loss allowance	(113,164)	(48,479)	954,645	793,002
Write-offs	-	-	(2,134,017)	(2,134,017)
Balance as at December 31, 2018	119,473	403,831	866,986	1,390,290

* Includes consumer mortgage loans
** Includes overdrafts and others

8. LOANS AND ADVANCES, NET (continued)

c) Movement in Allowance for impairment of credit losses

	2018 SAR'000
Closing loss allowance as at December 31, 2017 (calculated under IAS 39)	2,084,926
Amounts restated through opening retained earnings	1,426,062
Opening loss allowance as at January 1, 2018 (calculated under IFRS 9)	3,510,988
Provided during the year, net*	981,558
Bad debts written off against provision	(2,134,017)
Balance at the end of the year	2,358,529

* Includes net charge offs, write-offs and remeasurements

	2017 SAR'000
Balance as at Jan 1, 2017 (calculated under IAS 39)	2,577,515
Provided during the year, net	2,122,460
Bad debts written off	(2,323,641)
Recoveries/ reversals of previously provided amounts	(263,822)
Other movements	(27,586)
Balance at end of the year (calculated under IAS 39)	2,084,926

d) Impairment charge for financing losses in the consolidated statement of income represents::

	2018 SAR'000	2017 SAR'000
Charge for the year, net	1,372,947	1,858,639
Recovery of written off Loans and advances, net	(434,242)	(631,151)
Allowance for impairment, net	938,705	1,227,488

e) Impairment charges for credit losses and other provisions, net as reflected in the statement of income are detailed as follows:

	2018 SAR'000	2017 SAR'000
Impairment charge for credit losses, net	938,705	1,227,488
Reversal of impairment charge for other financial assets, net	(10,865)	-
Total	927,840	1,227,488

9. INVESTMENT IN ASSOCIATES

Investment in associates represents the Group's share of investment in entities where the Group has significant influence. These investments are accounted for using the equity method of accounting. Investment in associates represents

a) 35% (2017: 35%) share ownership in Ajil Financial Services Company incorporated in Kingdom of Saudi Arabia. The objectives of the Company are to engage in financing activities including leasing (and other related products) of projects in the industrial, transportation, agriculture, trading sectors and other skilled professions along with finance leasing of fixed and moveable assets

b) 21.4 % (2017: 21.4%) share in ownership in Royal and Sun Alliance Insurance (Middle East) Limited E.C., incorporated in Bahrain, engaged in insurance and re-insurance business and

c) 30.6% (2017: 30.6%) share ownership, (including indirect) and Board representation in Al-Alamiya for Cooperative Insurance Company incorporated in Kingdom of Saudi Arabia. The activities of the company are to transact cooperative insurance and re-insurance operations and all related activities as per applicable laws and regulations in the Kingdom.

10. PROPERTY AND EQUIPMENT, NET

SAR' 000	Land and buildings	Improvements and decoration of premises	Furniture, fixtures and equipment	Computer hardware, software programs and automation projects	Motor vehicles	Total
Cost						
Balance as at January 1, 2017	1,452,593	877,825	460,303	2,714,595	992	5,506,308
Additions	-	38,602	19,794	148,583	-	206,979
Disposals	(4,365)	(2,229)	(2,544)	(79,321)	-	(88,459)
Balance as at December 31, 2017	1,448,228	914,198	477,553	2,783,857	992	5,624,828
Additions	-	26,146	20,740	196,948	545	244,379
Disposals	(310)	(3,425)	(4,664)	(133,690)	(118)	(142,207)
Balance at December 31, 2018	1,447,918	936,919	493,629	2,847,115	1,419	5,727,000
Accumulated depreciation and amortisation						
Balance as at January 1, 2017	512,573	751,295	387,824	1,991,440	827	3,643,959
Charge for the year	21,396	43,786	26,533	190,392	73	282,180
Disposals	(982)	(1,909)	(2,506)	(48,322)	-	(53,719)
Balance as at December 31, 2017	532,987	793,172	411,851	2,133,510	900	3,872,420
Charge for the year	21,672	42,969	27,184	204,925	151	296,901
Disposals	-	(3,425)	(4,628)	(133,612)	(118)	(141,783)
Balance at December 31, 2018	554,659	832,716	434,407	2,204,823	933	4,027,538
Net book value						
As at January 1, 2017	940,020	126,530	72,479	723,155	165	1,862,349
As at December 31, 2017	915,241	121,026	65,702	650,347	92	1,752,408
As at December 31, 2018	893,259	104,203	59,222	642,292	486	1,699,462

Improvements and decoration of premises include work in progress amounting to SAR 0.8 million as at December 31, 2018 (2017: SAR 0.3 million).

11. OTHER ASSETS

	2018 SAR'000	2017 SAR'000
Accounts receivable	348,506	209,941
Others*	372,135	320,068
Total	720,641	530,009

* Mainly include prepayments amounting to SAR 79.5 million (2017: SAR 92 million), Sundry debtors and settlement accounts of SAR 100.8 million (2017: SAR 90.2 million) and items in transit which are cleared in the normal course of business.

12. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2018 SAR'000	2017 SAR'000
Current accounts	832,905	1,058,894
Money market deposits	7,747,609	5,997,274
Total	8,580,514	7,056,168

Money market deposits include deposits against sales of fixed rate bonds of SAR 684.3 million (2017: SAR 36.3 million) with agreement to repurchase the same at fixed future dates.

13. CUSTOMER DEPOSITS

	2018 SAR'000	2017 SAR'000
Demand	86,842,195	81,011,365
Saving	459,724	366,380
Time	66,304,252	61,430,076
Others	16,215,985	11,557,728
Total	169,822,156	154,365,549

Under time deposits, the deposit against sale of bonds with agreement to repurchase the same at fixed future dates was nil (2017: SAR 43 million). Time deposits also include non-special commission based deposits of SAR 31,190 million (2017: SAR 25,035 million). Other customers' deposits include SAR 2,738 million (2017: SAR 2,642 million) of margins held for irrevocable commitments.

The above include foreign currency deposits as follows:

	2018 SAR'000	2017 SAR'000
Demand	4,048,138	3,990,803
Saving	12,547	9,757
Time	20,165,422	15,072,603
Other	325,742	449,191
Total	24,551,849	19,522,354

14. DEBT SECURITIES IN ISSUE

During June 2015, the Bank issued SAR 4,000 million Subordinated debt (Sukuk). These are SAR denominated and have maturity date of June 24, 2025 and are callable after 5 years, subject to the terms and conditions of the agreement. The sukuks carry a special commission rate of 6 month SAIBOR plus 115 basis points.

During November 2018, the Bank settled the Senior debt (Sukuk) of SAR 4,000 million issued in November 2013 .This settlement has been done in line with the early settlement option to repay the sukuk after 5 years from issuance date, subject to prior approval of SAMA and terms and conditions of the agreement.

15. OTHER LIABILITIES

	2018 SAR'000	2017 SAR'000
Accounts payable	716,417	845,585
Others*	9,728,220	7,297,314
Total	10,444,637	8,142,899

* Mainly include provision for zakat and tax of SAR 2,806 million (2017: SAR 1,844 million), end of service benefits of SAR 717 million (2017 : SAR 699 million) based on actuarial calculations(note 27 b)), insurance payable, accrued expenses, income received in advance and items in transit which are cleared in the normal course of business.

16. SHARE CAPITAL

The authorised, issued and fully-paid share capital of the Bank consist of 3,000 million shares of SAR 10 each (2017: 3,000 million shares of SAR 10 each).

17. STATUTORY RESERVE

In accordance with Saudi Arabian Banking Control Law and the Bank's By-Laws, a minimum of 25% of the annual net income is required to be transferred to the statutory reserve until this reserve equals to the paid up capital of the Bank. Accordingly, SAR 1,179 million has been transferred from 2018 net income (2017: SAR 986.5 million). The statutory reserve is not currently available for distribution.

18. OTHER RESERVES*

	2018 SAR'000 FVOCI debt	2018 SAR'000 FVOCI equity	2018 SAR'000 Total
Balance at beginning of the year	179,485	507,380	686,865
Impact of implementation of IFRS 9	55,283	(171,761)	(116,478)
Net change in fair value of FVOCI investments	(579,105)	101,200	(477,905)
Net amounts relating to FVOCI-debt investments transferred to consolidated statement of income	(109,563)	-	(109,563)
Net ECL movement during the year	19,801	-	19,801
Net disposals during the year	-	53,746	53,746
Balance at end of the year	(434,099)	490,565	56,466

** Does not include Actuarial gains/ (losses) on defined benefit plan of SAR 1.58 million.*

	2017 SAR'000 Total
Balance at beginning of the year	532,929
Net change in fair value of available for sale investments	422,221
Net amounts relating to available for sale investments transferred to consolidated statement of income	(268,285)
Net movement during the year	153,936
Balance at end of the year	686,865

19. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

As at December 31, 2018, there were legal proceedings of a routine nature outstanding against the Group. No provision has been made as management and in-house legal adviser believes that it is unlikely that any significant loss will arise.

b) Capital commitments

As at December 31, 2018 the Group had capital commitments of SAR 178.3 million (2017: SAR 88.5 million). This includes computer hardware, software, automation projects, construction and equipment purchases.

c) Credit related commitments and contingencies

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantee and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. Documentary letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are generally collateralised by the underlying shipments of goods to which they relate, and therefore have significantly less risk.

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be presented before being reimbursed by the customers.

Commitments to extend credit represent the unused portion of authorizations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire or terminate without being funded.

19. COMMITMENTS AND CONTINGENCIES (continued)

c) Credit related commitments and contingencies (continued)

i) The contractual maturity structure for the Group's commitments and contingencies are as follows:

2018 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	4,394,052	3,399,272	325,657	-	8,118,981
Letters of guarantee *	17,175,558	30,614,563	15,853,614	757,247	64,400,982
Acceptances	1,329,468	447,421	51,908	-	1,828,797
Irrevocable commitments to extend credit	187,629	1,862,547	8,243,469	1,332,301	11,625,946
Total	23,086,707	36,323,803	24,474,648	2,089,548	85,974,706

2017 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	3,981,126	4,172,440	174,548	-	8,328,114
Letters of guarantee *	16,331,813	33,356,176	14,252,131	648,070	64,588,190
Acceptances	1,401,222	585,123	40,229	-	2,026,574
Irrevocable commitments to extend credit	1,462,052	1,424,911	5,347,977	1,654,596	9,889,536
Total	23,176,213	39,538,650	19,814,885	2,302,666	84,832,414

* This is as per contractual period of the guarantee and in event of default may be payable on demand and therefore current in nature .

The outstanding unused portion of non-firm commitments as at December 31,2018 which can be revoked unilaterally at any time by the Group, amounts to SAR 97,192 million (2017: SAR 89,554 million).

ii) An analysis of changes in loss allowance for credit related commitments and contingencies are, as follows:

	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2018	51,789	104,502	497,618	653,909
Transfer to 12-month ECL	6,718	(737)	(5,981)	-
Transfer to lifetime ECL - not Credit Impaired	(7,313)	10,369	(3,056)	-
Transfer to lifetime ECL - Credit Impaired	(116)	(43,026)	43,142	-
Net re-measurement of loss allowance	(18,257)	(36,281)	73,753	19,215
Transfer to write-off reserves	-	-	(512,095)	(512,095)
Balance as at December 31, 2018	32,821	34,827	93,381	161,029

The significant movement in ECL was due to re-measurement of ECL on off-balance sheet exposures written-off during the year. The ECL for written-off exposures was SAR 472.4 million at the beginning of year which was re-measured during the year to SAR 512 million before the exposures were written-off.

iii) The analysis of commitments and contingencies by counterparty is as follows:

	2018 SAR'000	2017 SAR'000
Government and quasi government	-	-
Corporate	67,468,753	63,645,837
Banks and other financial institutions	18,505,953	21,186,577
Total	85,974,706	84,832,414

d) Assets pledged

Assets pledged as collateral with customers are as follows:

	2018		2017	
	Assets SAR'000	Related liabilities SAR'000	Assets SAR'000	Related liabilities SAR'000
Investments held at amortised cost and FVOCI (note 7 f),12 and 13)	683,599	684,277	78,274	79,371

These transactions are conducted under the terms that are usual and customary to standard lending and securities borrowing and lending activities.

19. COMMITMENTS AND CONTINGENCIES (continued)

e) Operating lease commitments

The future minimum lease payments under non-cancellable operating leases where the Group is the lessee are as follows:

	2018 SAR'000	2017 SAR'000
Less than 1 year	29,540	31,813
1 to 5 years	55,055	65,232
Over 5 years	3,616	6,206
Total	88,211	103,251

20. SPECIAL COMMISSION INCOME AND EXPENSE

		2018 SAR'000	2017 SAR'000
Special commission income on:			
Investments	- FVIS	11,805	-
	- FVOCI / Available for sale	437,340	425,591
	- Amortised cost/ Other investments held at amortised cost	841,049	661,233
		1,290,194	1,086,824
Due from banks and other financial institutions		139,002	148,484
Loans and advances		6,903,169	6,189,799
Total		8,332,365	7,425,107

	2018 SAR'000	2017 SAR'000
Special commission expense on:		
Due to banks and other financial institutions	209,255	112,074
Customer deposits	1,190,905	1,141,859
Debt securities in issue	246,441	236,097
Total	1,646,601	1,490,030

21. FEE AND COMMISSION INCOME, NET

	2018 SAR'000	2017 SAR'000
Fee and commission income on:		
- Share brokerage and fund management	323,464	269,288
- Trade finance	596,781	562,917
- Credit facilities and advisory	641,278	577,385
- Card products	707,002	626,172
- Other banking services	143,386	120,881
Total fee and commission income	2,411,911	2,156,643
Fee and commission expense on:		
- Banking cards	513,162	469,534
- Share brokerage	49,080	46,761
- Other banking services	138,617	130,034
Total fee and commission expense	700,859	646,329
Fee and commission income, net	1,711,052	1,510,314

22. GAINS ON DISPOSAL OF NON-TRADING INVESTMENTS, NET

	2018 SAR'000	2017 SAR'000
FVOCI / Available for sale	123,545	282,837
Amortised Cost / Held to maturity	6,840	300
Total	130,385	283,137

23. OTHER OPERATING INCOME

Other operating income for 2018, includes gain on disposals of property and equipment amounting to SAR 25.7 million (2017: SAR 0.07 million).

24. SALARIES AND EMPLOYEE-RELATED EXPENSES

The following table summarises the Group's employee categories defined in accordance with SAMA's rules on compensation practices and includes the total amounts of fixed and variable compensation paid to employees during the years ended December 31, 2018 and 2017, and the forms of such payments.

Categories SAR 000	Number of employees		Fixed compensation		Variable compensation		Total compensation	
	2018	2017	2018	2017	2018	2017	2018	2017
Senior executives requiring SAMA no objection	32	37	42,478	40,891	12,060	9,004	54,538	49,895
Employees engaged in risk taking activities	348	322	92,988	89,133	22,786	18,943	115,774	108,076
Employees engaged in control functions	432	469	94,746	100,159	15,853	10,992	110,599	111,151
Outsourced employees	381	441	23,212	23,614	-	-	23,212	23,614
Other employees	4,780	5,063	742,489	748,091	106,042	90,696	848,531	838,787
Total	5,973	6,332	995,913	1,001,888	156,741	129,635	1,152,654	1,131,523

	2018	2017
Variable compensation accrued during the year and other employee related benefits*	769,272	570,626
Total salaries and employee-related expenses as per consolidated statement of income	1,765,185	1,572,514

*Other employee benefits include; insurance, pension, relocation expenses, recruitment expenses, training and development and other employee benefits.

The Group's compensation policy is based on the nature of the job, market practices and a jobholder's level of involvement in risk taking process. This policy applies to all employees, including the executive management team, and aims to link individual performance to the Group's overall achievements and financial soundness. Compensation includes fixed and variable components. Salary revision, performance bonus and other performance-linked incentives are decided based on the outcome of the Group's performance management process, as well as the Group's financial performance and the attainment of strategic goals.

24. SALARIES AND EMPLOYEE-RELATED EXPENSES (continued)

The Board of Directors has the responsibility to approve and oversee the Group's compensation and incentives policy. The Board Nomination and Compensation Committee is composed of five non-executive Directors (comprising of three Board Directors and two independent external members) and is charged with overseeing the compensation system design and effectiveness on behalf of the Board of Directors. In addition, the Nomination and Compensation Committee is accountable for reviewing and approving the Group's compensation and incentives policy and undertaking its periodic assessment and update so as to ensure achievement of the system objectives and to reinforce the Group's risk management framework. Fixed compensation comprises salaries and wages and other benefits and allowances. Variable compensation includes sales incentives, product-related rewards and performance-related payments.

The Group has adopted fixed and variable compensation schemes. For senior managers and material risk takers, the variable component is vested over a period of 3 years and is aligned with the jobholder's level of responsibility, Group and individual performance and the level of risk inherent in the relevant job function. This is based on an annual review conducted by the Nomination and Compensation Committee. The Group consistently evaluates its compensation policies against both industry norms and international best practice and makes necessary revisions as and when required.

25. EARNINGS PER SHARE

Basic and diluted earnings per share for the years ended December 31, 2018 and 2017 are calculated by dividing the net income for the year by 3,000 million shares.

26. DIVIDENDS AND ZAKAT

The dividends for 2018 amounted to SAR 2,310 million (2017: SAR 2,190 million), resulting in a dividend to the shareholders of SAR 0.77 per share (2017: SAR 0.73 per share). The total dividends for 2018 include interim dividends of SAR 1,110 million paid for the first half of 2018 (2017: SAR 1,050 million). Final dividends of SAR 1,200 million (2017: SAR 1,140 million) have been proposed for 2018.

As a major event, during the year the Group reached an agreement with the General Authority of Zakat and Tax on the settlement of zakat claims for previous financial years up to the end of the fiscal financial year 2017, against payment of an amount of SAR 2,970 million. As per the settlement agreement, the Group is required to settle 20% of the agreed zakat liability in 2018, and the remaining amount to be settled over a period of five years. Accordingly the Group has recorded zakat for the previous years and until the end of financial year 2017, through its retained earnings amounting to SAR 753.6 million. This was in addition to SAR 440 million accrued during first half of 2018. The zakat accrual for the current year is SAR 430.2 million. As a result of the settlement agreement the Group has agreed to withdraw all of the previous appeals which were filed with the competent authority with respect to zakat. The zakat accrual for 2017 amounted to SAR 500 million.

27. DEFINED BENEFIT PLAN

a) General description

The Group operates an End of Service Benefit Scheme for its employees based on the prevailing Saudi Labor Laws. The liability in respect of the scheme is estimated by a qualified external actuary in accordance with International Accounting Standard 19 - Employee Benefits, and using “Projected Unit Credit Method”.

b) The movement in the obligation during the year based on its present value are as follows:

	2018 SAR'000	2017 SAR'000
Defined benefit obligation at the beginning of the year	699,325	708,144
Current service cost	67,646	62,101
Interest cost	29,731	40,308
Benefits paid	(78,018)	(79,789)
Unrecognized actuarial loss / (gain)	(1,581)	(31,439)
Defined benefit obligation at the end of the year	717,103	699,325

The end of service liability is disclosed within "other liabilities" in the consolidated statement of financial position

c) Charge /(reversal) for the year

	2018 SAR'000	2017 SAR'000
Current service cost	67,646	62,101
Interest on defined benefit obligations	29,731	40,308
	97,377	102,409

27. DEFINED BENEFIT PLAN

d) Re-measurement recognised in Other comprehensive income

	2018 SAR'000	2017 SAR'000
Gain from change in experience assumptions	(697)	(31,439)
Actuarial gains due to change in demographic assumptions	(884)	-
	(1,581)	(31,439)

e) The principal actuarial assumptions (in respect of the employee benefit scheme) used for the valuation as at December 31, 2018 and 2017 are as follows:

	2018 SAR'000	2017 SAR'000
Discount rate per annum	4.5%	4.5%
Expected rate of salary increase per annum	4.0%	4.0%
Normal retirement age	60	60

Assumptions regarding future mortality are set based on actuarial advice in accordance with the published statistics and experience in the region.

f) Sensitivity of actuarial assumptions

The table below illustrates the sensitivity of the Defined Benefit Obligation valuation as at December 31, 2018 and 2017 to the discount rate (4.5%) and salary escalation rate (4.0%)

2018	Impact on defined benefit obligation – increase / (decrease)		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.50%	(36,239)	42,501
Expected rate of salary increase	0.50%	42,291	(36,718)

2017	Impact on defined benefit obligation – increase / (decrease)		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.50%	(28,559)	33,365
Expected rate of salary increase	0.50%	33,365	(31,208)

The above sensitivity analyses are based on a change in an assumption holding all other assumptions constant.

28. CASH AND CASH EQUIVALENTS

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

	2018 SAR'000	2017 SAR'000
Cash and balances with SAMA excluding statutory deposit (note 4)	7,734,761	10,564,443
Due from banks and other financial institutions maturing within three months from the date of acquisition	7,336,578	5,587,200
Total	15,071,339	16,151,643

29. OPERATING SEGMENTS

The Group determines and presents operating segments based on the information that is provided internally to the chief operating decision maker in order to allocate resources to the segments and to assess its performance. The operating segments are managed separately based on the Group's management and internal reporting structure. The Group's primary business is conducted in the Kingdom of Saudi Arabia with one international branch, a representative office and an agency. However, the total assets, liabilities, commitments and results of operations of this branch, representative office and agency are not material to the Group's consolidated financial statements and as a result have not been separately disclosed. The transactions between the Group's operating segments are recorded as per the Group's transfer pricing system. There are no other material items of income or expenses between the operating segments.

With effect from January 1, 2018, based on management decision and in line with changes in management reporting, the assets, liabilities, income and expenses relating to 'Other' segment has been allocated over the retail banking, investment banking and brokerage, corporate banking and treasury and investment segments according to an internally agreed consistent basis. Accordingly the segment information for prior period is restated in line with current period presentation. The Group's reportable segments under IFRS 8 are as follows:

The Group's reportable segments under IFRS 8 are as follows:

Retail banking

Deposits, credit and investment products for individuals and small to medium sized businesses.

Investment banking and brokerage

Investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities.

Corporate banking

Principally handling corporate customers' current accounts, deposits and providing loans, overdrafts and other credit facilities and derivative products.

Treasury and investments

Principally providing money market, trading and treasury services as well as the management of the Group's investment portfolios.

29. OPERATING SEGMENTS (continued)

a) The Group's total assets and liabilities as at December 31, its total operating income and expense and its net income, for the years then ended by operating segments, are as follows:

2018 SAR'000	Retail banking	Investment banking and brokerage	Corporate banking	Treasury and investments	Total
Total assets	56,876,562	1,141,212	110,425,393	61,456,409	229,899,576
Total liabilities	80,264,923	296,838	96,610,319	15,953,280	193,125,360
Total operating income, net including	2,899,975	379,829	3,550,968	2,136,629	8,967,401
- Inter segment income (expenses)	405,255	95,039	(1,080,710)	580,416	-
- Net special commission income	2,533,797	95,118	2,452,596	1,604,253	6,685,764
- Fee and commission income, net	362,249	266,621	1,077,116	5,066	1,711,052
Total operating expenses, net including	2,329,483	154,666	1,598,762	219,155	4,302,066
- Depreciation of property and equipment	214,903	8,810	55,226	17,962	296,901
- Impairment charge for credit losses, net	161,502	-	766,338	-	927,840
- Impairment charge for investments, net	-	-	-	26,870	26,870
Share in earnings of associates, net	-	-	-	50,750	50,750
Net income (loss)	570,492	225,163	1,952,206	1,968,224	4,716,085

2017 SAR'000	Retail banking	Investment banking and brokerage	Corporate banking	Treasury and investments	Total
Total assets	53,221,951	974,646	101,801,241	60,284,333	216,282,171
Total liabilities	67,966,434	186,866	94,902,369	14,603,509	177,659,178
Total operating income, net including	2,674,963	302,600	3,471,158	1,676,490	8,125,211
- Inter segment income (expenses)	389,512	90,032	(615,692)	136,148	-
- Net special commission income	2,349,507	91,233	2,464,406	1,029,931	5,935,077
- Fee and commission income, net	324,909	205,418	968,195	11,792	1,510,314
Total operating expenses, net including	1,774,132	138,013	2,128,517	161,663	4,202,325
- Depreciation of property and equipment	204,018	7,390	54,647	16,125	282,180
- Impairment charge for credit losses, net	(76,074)	-	1,303,562	-	1,227,488
Share in earnings of associates, net	-	-	-	23,110	23,110
Net income (loss)	900,831	164,587	1,342,641	1,537,937	3,945,996

b) The Group's credit exposure by operating segment is as follows:

2018 SAR'000	Retail banking	Investment banking and brokerage	Corporate banking	Treasury and investments	Total
Consolidated statement of financial position	55,394,517	705,088	110,045,615	59,236,667	225,381,887
Commitments and contingencies	-	-	55,682,946	-	55,682,946
Derivatives	-	-	-	1,673,863	1,673,863

2017 SAR'000	Retail banking	Investment banking and brokerage	Corporate banking	Treasury and investments	Total
Consolidated statement of financial position assets	52,819,238	231,290	101,366,013	58,865,079	213,281,620
Commitments and contingencies	-	-	56,184,996	-	56,184,996
Derivatives	-	-	-	813,304	813,304

Credit exposure comprises the carrying value of consolidated statement of financial position assets excluding equity investments, investment in associates, property and equipment, other real estate. The credit equivalent value of commitments, contingencies and derivatives, according to SAMA's prescribed methodology are included in credit exposure.

30. FINANCIAL RISK MANAGEMENT

30.1 CREDIT RISK

Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The Group uses internal credit rating tools to assess credit standing of its counterparties and assigns credit ratings accordingly. Also the Group uses the external ratings, of the major rating agency, where applicable. A potential credit loss might arise due to lack of proper credit analysis of the borrower's credit worthiness, inability to service the debt, lack of appropriate documentation, etc.

The Group attempts to control credit risk by appropriate credit structuring, credit review process, post-disbursal monitoring of credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Group's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are monitored daily. In addition to monitoring credit limits, the Group manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk.

The Group's credit risk for derivatives, represents the potential cost to replace the derivative contracts if counterparties fail to fulfil their obligation, and to control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Concentration Risk refers to the risk from an uneven distribution of counterparties in credit or in other business relationship or from concentration in business sectors or geographical regions. Accordingly, Concentration risk in the credit portfolios comes into existence through a skewed distribution of financing to (a) individual borrower (name concentration) (b) industry /economic sector (sector concentration) and (c) geographical regions (regional concentration). Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting any particular category of concentration.

The Group seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business. It also takes security when appropriate. The Group also seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Management monitors the market value of collateral recurrently, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. The Group regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practice.

The credit quality of the Group's financial assets and letters of credit, letters of guarantee and acceptances is disclosed in note 30.3 a). The debt securities included in the investment portfolio are mostly sovereign risk. Analysis of investments by counterparty is provided in note 7. For details of the composition of loans and advances refer to note 8. Information on credit risk relating to derivative instruments is provided in note 6 and for commitments and contingencies in note 19. The Group's maximum credit exposure, which best represents its maximum exposure to credit risk at the end of the reporting period, without taking account of any collateral held or other credit enhancements, is not materially different than the credit exposure by business segment given in note 29.b). The Group's consolidated Risk Weighted Assets (RWA) calculated under the Basel III framework is also provided in note 35.

30. FINANCIAL RISK MANAGEMENT (continued)

30.2 GEOGRAPHICAL CONCENTRATION

a) The distribution by geographical region for major categories of assets, liabilities, commitments and contingencies and credit exposure accounts is as follows:

2018 SAR'000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Assets								
Cash and balances with SAMA	16,323,163	-	9	-	-	-	-	16,323,172
Cash in hand	5,212,771	-	9	-	-	-	-	5,212,780
Balances with SAMA	11,110,392	-	-	-	-	-	-	11,110,392
Due from banks and other financial institutions	7,168,419	243,582	1,747,766	1,736,290	-	122,860	10,259	11,029,176
Current accounts	46,468	104,300	402,968	1,304,564	-	114,870	10,259	1,983,429
Money market	7,121,951	139,282	1,344,798	431,726	-	7,990	-	9,045,747
Positive fair value of derivatives	165,878	22,552	63,051	35,144	-	-	-	286,625
Investments, net	32,472,574	2,336,183	2,995,033	8,222,419	104,526	417,458	1,444,579	47,992,772
FVIS	392,484	-	-	788	-	-	-	393,272
FVOCI	1,718,101	88,728	2,995,033	8,221,631	104,526	417,458	1,180,794	14,726,271
Amortised cost	30,361,989	2,247,455	-	-	-	-	263,785	32,873,229
Investment in associates	419,769	175,724	-	-	-	-	-	595,493
Loans and advances, net	148,104,829	2,312,590	61,789	208,005	-	337,617	-	151,024,830
Overdraft	5,997,031	-	-	-	-	-	-	5,997,031
Credit cards	730,947	-	-	-	-	-	-	730,947
Consumer loans	44,349,231	-	-	-	-	-	-	44,349,231
Commercial loans	96,746,230	2,312,590	61,789	208,005	-	337,617	-	99,666,231
Others	281,390	-	-	-	-	-	-	281,390
Other assets	720,641	-	-	-	-	-	-	720,641
Accounts receivable and others	720,641	-	-	-	-	-	-	720,641
Total	205,375,273	5,090,631	4,867,648	10,201,858	104,526	877,935	1,454,838	227,972,709
Liabilities								
Due to banks and other financial institutions	4,688,780	1,727,265	1,726,586	138,347	-	8,889	290,647	8,580,514
Current accounts	36,661	228,357	478,787	21,394	-	8,889	58,817	832,905
Money market deposits	4,652,119	1,498,908	1,247,799	116,953	-	-	231,830	7,747,609
Negative fair value of derivatives	117,238	6,990	145,290	4,752	-	-	-	274,270
Customer deposits	162,908,772	4,565,029	1,041,646	204,818	11,356	61,422	1,029,113	169,822,156
Demand	83,519,147	2,021,484	175,022	100,951	11,346	60,149	954,096	86,842,195
Saving	432,026	17,617	836	777	10	611	7,847	459,724
Time	62,786,699	2,496,216	865,358	90,086	-	569	65,324	66,304,252
Other	16,170,900	29,712	430	13,004	-	93	1,846	16,215,985
Debt securities in issue	4,003,783	-	-	-	-	-	-	4,003,783
Other liabilities	10,424,589	-	9,219	10,582	-	247	-	10,444,637
Accounts payable and others	10,424,589	-	9,219	10,582	-	247	-	10,444,637
Total	182,143,162	6,299,284	2,922,741	358,499	11,356	70,558	1,319,760	193,125,360

30. FINANCIAL RISK MANAGEMENT (continued)

30.2 GEOGRAPHICAL CONCENTRATION (continued)

2018 SAR'000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Commitments and contingencies	59,581,262	1,077,870	11,749,659	8,939,009	144	2,635,476	1,991,286	85,974,706
Letters of credit	7,580,683	309,286	10,739	-	144	55,159	162,970	8,118,981
Letters of guarantee	41,863,921	446,349	11,553,381	6,147,309	-	2,574,683	1,815,339	64,400,982
Acceptances	1,790,103	19,079	1,004	-	-	5,634	12,977	1,828,797
Irrevocable commitments to extend credit	8,346,555	303,156	184,535	2,791,700	-	-	-	11,625,946
Maximum credit exposure (stated at credit equivalent amounts according to SAMA's prescribed methodology)								
Derivatives	821,988	316,193	459,614	76,068	-	-	-	1,673,863
Held for trading	821,988	316,193	358,266	76,068	-	-	-	1,572,515
Held as fair value hedges	-	-	101,348	-	-	-	-	101,348
Commitments and contingencies	38,305,399	625,223	8,019,924	5,597,647	70	1,797,880	1,336,803	55,682,946
Letters of credit	3,675,653	149,964	5,207	-	70	26,745	79,019	3,936,658
Letters of guarantee	28,706,763	306,069	7,922,339	4,215,309	-	1,765,501	1,244,807	44,160,788
Acceptances	1,790,103	19,079	1,004	-	-	5,634	12,977	1,828,797
Irrevocable commitments to extend credit	4,132,880	150,111	91,374	1,382,338	-	-	-	5,756,703

2017 SAR'000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Assets								
Cash and balances with SAMA	18,504,249	-	6	-	-	-	-	18,504,255
Cash in hand	5,484,528	-	6	-	-	-	-	5,484,534
Balances with SAMA	13,019,721	-	-	-	-	-	-	13,019,721
Due from banks and other financial institutions	4,678,367	971,130	2,485,524	587,867	-	312,522	336,790	9,372,200
Current accounts	1,000,271	14,836	2,376	30,595	-	31,883	15,792	1,095,753
Money market placements	3,678,096	956,294	2,483,148	557,272	-	280,639	320,998	8,276,447
Positive fair value of derivatives	96,957	11,061	7,872	-	-	-	-	115,890
Investments, net	31,115,091	1,915,046	2,847,490	9,200,045	790	371,939	919,502	46,369,903
FVIS	303,760	-	-	-	-	-	-	303,760
Available for sale	1,698,057	8,427	2,847,490	9,200,045	790	371,939	503,051	14,629,799
Other investments held at amortised cost	29,113,274	1,906,619	-	-	-	-	416,451	31,436,344
Investment in associates	400,320	164,449	-	-	-	-	-	564,769
Loans and advances, net	135,875,408	2,287,992	251	673,967	-	-	-	138,837,618
Overdraft	6,705,539	-	-	-	-	-	-	6,705,539
Credit cards	717,226	-	-	-	-	-	-	717,226
Consumer loans	41,424,617	-	-	-	-	-	-	41,424,617
Commercial loans	86,778,083	2,287,992	251	673,967	-	-	-	89,740,293
Others	249,943	-	-	-	-	-	-	249,943
Other assets	530,009	-	-	-	-	-	-	530,009
Accounts receivable and others	530,009	-	-	-	-	-	-	530,009
Total	191,200,401	5,349,678	5,341,143	10,461,879	790	684,461	1,256,292	214,294,644

30. FINANCIAL RISK MANAGEMENT (continued)

30.2 GEOGRAPHICAL CONCENTRATION (continued)

2017 SAR'000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Liabilities								
Due to banks and other financial institutions	3,645,140	2,243,114	734,965	381,574	-	8,060	43,315	7,056,168
Current accounts	19,763	302,090	578,219	107,449	-	8,060	43,313	1,058,894
Money market deposits	3,625,377	1,941,024	156,746	274,125	-	-	2	5,997,274
Negative fair value of derivatives	36,670	9,226	32,027	-	-	-	-	77,923
Customer deposits	149,290,345	2,381,084	1,283,696	155,739	6,464	114,524	1,133,697	154,365,549
Demand	77,607,541	2,055,152	114,953	96,131	6,464	113,038	1,018,086	81,011,365
Saving	359,562	1,850	228	-	-	462	4,278	366,380
Time	59,765,514	324,082	1,168,515	59,608	-	1,024	111,333	61,430,076
Other	11,557,728	-	-	-	-	-	-	11,557,728
Debt securities in issue	8,016,639	-	-	-	-	-	-	8,016,639
Other liabilities	8,124,858	-	8,215	9,228	-	598	-	8,142,899
Accounts payable and others	8,124,858	-	8,215	9,228	-	598	-	8,142,899
Total	169,113,652	4,633,424	2,058,903	546,541	6,464	123,182	1,177,012	177,659,178
Commitments and contingencies	56,203,197	637,465	12,676,028	9,042,524	-	4,924,239	1,348,961	84,832,414
Letters of credit	8,066,060	167,524	2,144	-	-	81,841	10,545	8,328,114
Letters of guarantee	39,572,420	282,545	12,480,004	6,168,435	-	4,831,508	1,253,278	64,588,190
Acceptances	1,920,394	9,557	595	-	-	10,890	85,138	2,026,574
Irrevocable commitments to extend credit	6,644,323	177,839	193,285	2,874,089	-	-	-	9,889,536
Maximum credit exposure (stated at credit equivalent amounts according to SAMA's prescribed methodology)								
Derivatives	454,899	296,560	61,845	-	-	-	-	813,304
Held for trading	449,274	296,560	61,845	-	-	-	-	807,679
Held as fair value hedges	5,625	-	-	-	-	-	-	5,625
Commitments and contingencies	36,799,414	374,761	8,859,452	5,738,773	-	3,442,415	970,181	56,184,996
Letters of credit	3,838,427	79,720	1,020	-	-	38,946	5,018	3,963,131
Letters of guarantee	27,786,888	198,397	8,763,186	4,331,340	-	3,392,579	880,025	45,352,415
Acceptances	1,920,394	9,557	595	-	-	10,890	85,138	2,026,574
Irrevocable commitments to extend credit	3,253,705	87,087	94,651	1,407,433	-	-	-	4,842,876

30. FINANCIAL RISK MANAGEMENT (continued)

30.2 GEOGRAPHICAL CONCENTRATION (continued)

b) The distribution by geographical concentration of non-performing loans and advances and provision for credit losses are as follows:

	Non-performing loans and advances, net		Allowance for credit losses	
	2018 SAR'000	2017 SAR'000	2018 SAR'000	2017 SAR'000
Kingdom of Saudi Arabia				
Commercial Loans*	1,318,050	1,211,839	(640,240)	(906,812)
Consumer Loans**	243,387	200,318	(57,741)	(105,765)
Total	1,561,437	1,412,157	(697,981)	(1,012,577)

*Includes overdrafts and other loans
** includes consumer mortgage loans

30.3 CREDIT QUALITY ANALYSIS

The Group uses its internal ratings to rate the credit quality of its portfolio and uses the following categories:

Low and fair risk: Performing assets of high / good quality.

Watch list: Assets that have shown some initial signs of deterioration in credit quality in the recent past and are likely subject to increasing levels of credit risk.

Substandard: Assets which exhibit substantially higher level of credit risk.

Doubtful: These assets are typically in default (impaired) but still show some prospect of partial recovery in principal in the future.

Loss: Impaired assets which are generally fully provided and have low expectations of further recovery.

a) The following table sets out information about the credit quality of financial assets as at December 31, 2018. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

i) Balances with SAMA and due from bank and other financial institutions

SAR'000	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Investment grade	17,878,277	-	-	17,878,277
Non-investment grade	4,266,628	-	-	4,266,628
Carrying amount	22,144,905	-	-	22,144,905

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 CREDIT QUALITY ANALYSIS (continued)

ii) Loans and advances, gross at amortized cost

SAR'000	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Low – fair risk	141,464,024	6,823,511	137,155	148,424,690
Watch list	163,672	1,896,235	601,582	2,661,489
Substandard	-	-	1,432,249	1,432,249
Doubtful	-	-	501,808	501,808
Loss	-	-	363,123	363,123
Carrying amount	141,627,696	8,719,746	3,035,917	153,383,359

ii) (a) Credit cards, gross

SAR'000	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Low – fair risk	684,864	35,713	-	720,577
Watch list	-	23,893	-	23,893
Substandard	-	-	30,933	30,933
Doubtful	-	-	-	-
Loss	-	-	-	-
Carrying amount	684,864	59,606	30,933	775,403

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 CREDIT QUALITY ANALYSIS (continued)

ii) (b) Consumer loans, gross*

SAR'000	12 month ECL	Life time ECL	Lifetime ECL	Total
Low – fair risk	42,580,593	903,916	-	43,484,509
Watch list	-	840,308	-	840,308
Substandard	-	-	704,810	704,810
Doubtful	-	-	197,445	197,445
Loss	-	-	45,942	45,942
Carrying amount	42,580,593	1,744,224	948,197	45,273,014

ii) (c) Commercial loans, gross**

SAR'000	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Low – fair risk	98,198,567	5,883,882	137,155	104,219,604
Watch list	163,672	1,032,034	601,582	1,797,288
Substandard	-	-	696,506	696,506
Doubtful	-	-	304,363	304,363
Loss	-	-	317,181	317,181
Carrying amount	98,362,239	6,915,916	2,056,787	107,334,942

* Includes consumer mortgage loans
* *Includes overdrafts and other loans

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 CREDIT QUALITY ANALYSIS (continued)

iii) Investments (FVOCI and amortised cost- debt instruments)

SAR'000	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Low – fair risk	44,725,347	866,377	-	45,591,724
Watch list	3,279	42,970	-	46,249
Substandard	-	-	10,310	10,310
Doubtful	-	-	-	-
Loss	-	-	-	-
Carrying amount	44,728,626	909,347	10,310	45,648,283

The following table sets out information about the credit quality of letters of credit, letters of guarantee and acceptances as at December 31, 2018.

SAR'000	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Low – fair risk	67,754,998	5,810,793	50,169	73,615,960
Watch list	10,524	433,165	51,161	494,850
Substandard	-	-	190,645	190,645
Doubtful	-	-	2,247	2,247
Loss	-	-	45,058	45,058
Carrying amount	67,765,522	6,243,958	339,280	74,348,760

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 CREDIT QUALITY ANALYSIS (continued)

b) Amounts arising from ECL – Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining 12 month probability of default (PD) as at the reporting date; with
- the remaining 12 month PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Group, groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1: When loans are first recognised, the Group recognises an allowance based on 12 months ECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2 or Stage 3.

Stage 2: When a loan has shown a significant increase in credit risk since origination but is not credit impaired, the Group records an allowance for the Lifetime ECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

Stage 3: Loans considered credit-impaired. The Group records an allowance for the Lifetime ECL.

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 CREDIT QUALITY ANALYSIS (continued)

b) Amounts arising from ECL – Significant increase in credit risk (continued)

Credit risk grades

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower and his business activities.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each corporate exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring of exposures involves use of the following data.

Corporate exposures	Retail exposures	All exposures
Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality management and senior management changes.	Internally collected data and customer behavior – e.g. utilization of credit card facilities	Payment record – this includes overdue status as well as a range of variables about payment ratios
Data from credit reference agencies, press articles, changes in external credit ratings	Customer payment behavior based on internally collected data – e.g. Delinquency cycles	Utilization of the granted limit
Quoted bond and credit default swap (CDS) prices for the borrower where available	Types and number of products held at customer level	Requests for and granting of forbearance
Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities		Existing and forecast changes in business, financial and economic conditions

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 CREDIT QUALITY ANALYSIS (continued)

b) Amounts arising from ECL – Significant increase in credit risk (continued)

i) Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analyzed by type of product and borrower as well as by credit risk grading. For some portfolios, information obtained from external credit reference agencies is also used.

The Group employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time

This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include GDP growth, benchmark interest rates and unemployment. For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices.

Based on advice from the Group's Chief Economist and consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Group then uses these forecasts to adjust its estimates of PDs.

ii) Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group's quantitative modeling.

Using its expert credit judgment and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis. Disclosure of relevant qualitative indicators, including different criteria used for different portfolios- e.g. retail mortgages, credit cards, commercial real estate etc.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due, on a material exposure. Days past due are determined by counting the number of days since the due date in respect of which full payment that is in excess of the materiality threshold has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

iii) Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer or being undergone into financially stressed conditions. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the accounting policy.

When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of PD at the reporting date based on the modified terms and the PD estimated based on data at initial recognition and the original contractual terms.

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 CREDIT QUALITY ANALYSIS (continued)

b) Amounts arising from ECL – Significant increase in credit risk (continued)

iii) Modified financial assets (continued)

The Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximize collection opportunities and minimize the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the banking commission, the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Group Audit Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Group's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect interest and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group evaluates the borrower's payment performance against the modified contractual terms and considers various behavioral indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired /in default. A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

There were no financial assets that were modified with material forbearance during the year-ended December 31, 2018.Nonetheless for the loans the conditions of which were renegotiated a comprehensive evaluation was undertaken to assess the creditworthiness of the relevant obligors in order to assign proper staging if significant increase in risk was noted.

iv) Definition of 'Default'

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Group. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding. In assessing whether a borrower is in default. The Group considers indicators that are:
- qualitative- e.g. breaches of covenant ;
- quantitative- e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 CREDIT QUALITY ANALYSIS (continued)

b) Amounts arising from ECL – Significant increase in credit risk (continued)

v) Incorporation of forward looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Group is using different indigenous macro-econometric models to help estimating default rates for the wholesale, banks and corporate bonds portfolios, as well as personal loans, mortgage loans, auto loans and credit cards.

The models are developed individually and the relative importance of macroeconomic variables are identified by using the most suitable statistical techniques including Co-integration, Ordinary least square regressions and Granger causality test for non-retail portfolios. For the four retail portfolios, the Principal Component Analysis (PCA) is used.

These models help in quantifying the direction and magnitude of the impact of each single macroeconomic factor on the default rate in each separate portfolio. The upmost macroeconomic variables that seem to affect the default rate for retail and non-retail portfolios in the Group are:

Economic Indicators	2018	2017
GDP/ The non-oil private sector (SAR Million)	1,036,072	1,012,249
The International prices for Saudi Oil in USD	69.52	54.15
Daily Average Saudi Oil production over a quarter in millions of barrels.	10.26	10.13
The Short term interest rate (3 month SIBOR)	2.43	1.81
The 5 year SAR Interest rate swap (IRS) rate.	3.47	3.20
Government expenditure/The real government investment (SAR Million)	211,941	195,798
The Consumer Price Index (inflation)	1.08	1.05
The loans to private sector (SAR Million)	1,403,618	1,339,814
The Unemployment rate	12.84	12.78

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 CREDIT QUALITY ANALYSIS (continued)

b) Amounts arising from ECL – Significant increase in credit risk (continued)

v) Incorporation of forward looking information (continued)

To explore the potential impact of changing economic conditions on the future Group's default rates, a composite index is established for the most relevant macroeconomic factors to each single portfolio in both non-retail and retail portfolios, under different scenarios and using the weights from the models. This means seven different composite indices were established. Each composite index is a mean to measure the influence of the different factors comprising the model on default rates for each product within the non-retail and retail portfolios. Through the composite index, the Group could obtain simultaneous changes in all the factors that appear to affect the default rate for each credit risk exposure.

vi) Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

i. probability of default (PD);

ii. loss given default (LGD);

iii. exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data.

PD estimates are estimates at a certain date, which are calculated, based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally and externally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 CREDIT QUALITY ANALYSIS (continued)

b) Amounts arising from ECL – Significant increase in credit risk (continued)

vi) Measurement of ECL (continued)

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modeling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for retail credit card facilities that include both a loan and an undrawn commitment component, the Group measures ECL based on the existing expiry date of the credit card. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Group has the right to cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management but only when the Group becomes aware of an increase in credit risk. The Group does not offer retail overdraft facilities, and any technical overdrafts originating in retail current accounts are considered payable immediately; such technical overdrafts are also subjected to Group's staging criteria.

Where modeling of a parameter is carried out on a collective basis, the financial instruments are grouped based on shared risk characteristics that include:

- product/instrument type;
- credit risk categorization;
- collateral;
- recovery and cure rates; date of initial recognition;
- remaining term to maturity;

The grouping is subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data.

30. FINANCIAL RISK MANAGEMENT (continued)

30.4 CREDIT QUALITY OF LOANS AND ADVANCES

a) Ageing of loans and advances

2018 SAR'000	Credit cards	Consumer loans*	Commercial loans**	Total
Upto 30 days	62,231	3,495,818	51,340	3,609,389
From 31 - 90 days	27,208	1,031,869	422,787	1,481,864
From 91 - 180 days	16,546	360,058	50,777	427,381
More than 180 days	-	-	351,176	351,176
Total	105,985	4,887,745	876,080	5,869,810

2017 SAR'000	Credit cards	Consumer loans*	Commercial loans**	Total
Upto 30 days	48,437	3,419,172	167,015	3,634,624
From 31 - 90 days	22,983	826,908	44,164	894,055
From 91 - 180 days	19,528	332,909	283,943	636,380
More than 180 days	-	-	1,329,343	1,329,343
Total	90,948	4,578,989	1,824,465	6,494,402

* Includes consumer mortgage loans
** Includes overdrafts and other loans

30. FINANCIAL RISK MANAGEMENT (continued)

30.4 CREDIT QUALITY OF LOANS AND ADVANCES (continued)

b) Economic sector risk concentration for the loans and advances and allowance for impairment are as follows

SAR' 000	2018 Performing	2018 Non performing	2018 Allowance for impairment	2018 Loans and advances, net	2017 Performing	2017 Non performing	2017 Allowance for impairment	2017 Loans and advances, net
Banks and other financial institutions	6,989,286	-	(8,263)	6,981,023	5,237,705	-	-	5,237,705
Agriculture and fishing	1,935,554	-	(3,492)	1,932,062	1,474,026	-	-	1,474,026
Manufacturing	24,897,676	501	(231,725)	24,666,452	23,680,064	498,759	(243,902)	23,934,921
Mining and quarrying	6,940,962	-	(257)	6,940,705	9,829,363	-	-	9,829,363
Electricity, water, gas and health services	3,098,627	-	(1,276)	3,097,351	2,266,851	-	-	2,266,851
Building and construction	14,694,804	490,505	(321,636)	14,863,673	13,314,188	214,280	(517,107)	13,011,361
Commerce	35,934,569	824,993	(809,696)	35,949,866	32,203,674	496,511	(141,974)	32,558,211
Transportation and communication	3,883,443	-	(3,600)	3,879,843	4,548,932	-	-	4,548,932
Services	7,610,301	2,051	(10,336)	7,602,016	4,590,247	2,289	(3,829)	4,588,707
Consumer loans and credit cards	45,805,030	243,387	(968,239)	45,080,178	42,344,837	200,318	(105,765)	42,439,390
Others	31,670	-	(9)	31,661	20,500	-	-	20,500
Total	151,821,922	1,561,437	(2,358,529)	151,024,830	139,510,387	1,412,157	(1,012,577)	139,909,967
Portfolio provision								(1,072,349)
Loans and advances, net								138,837,618

c) Collateral

The Group in the ordinary course of lending activities holds collateral as security to mitigate credit risk in the loans and advances. These collaterals mostly include time, demand and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. The collaterals are held mainly against commercial and consumer loans and are managed against relevant exposures at their net realisable values. Management monitors the market value of the collateral and requests additional collateral in accordance with the underlying agreement when deemed necessary. Fair value of collateral held by Group against financing and advances by each category are as follows:

	2018 SAR'000	2017 SAR'000
Neither past due nor impaired	46,388,480	38,713,823
Past due but not impaired	4,103,990	5,645,833
Impaired	1,864,326	1,482,969
Total	52,356,796	45,842,625

31. MARKET RISK

Market Risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as special commission rates, foreign exchange rates, commodity and equity prices. The Group classifies exposures to market risk into either trading or non-trading/ banking-book. The market risk for the trading book is managed and monitored using a VaR methodology. Market risk for the non-trading book is managed and monitored using a combination of VaR, stress testing and sensitivity analysis.

31.1 Market Risk - Trading Book

The Group has set limits (both VaR and exposure based limits) for the acceptable level of risks in managing the trading book. In order to manage the market risk in trading book, the Group applies a VaR methodology to assess the market risk positions held and also to estimate the potential economic loss based on a set of assumptions and changes in market conditions.

A VaR methodology estimates the potential negative change in market value of a portfolio at a given confidence level and over a specified time horizon. The Group uses variance-covariance approach for calculating VaR for trading book based on historical data (of 1 year). VaR models are usually designed to measure the market risk in a normal market environment and therefore the use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical distribution.

The Group calculates VaR on the basis of the following:

1. 10 days holding period at 99% confidence interval for regulatory capital computation
2. 1 day holding period at 99% confidence interval for internal reporting and for disclosure purposes.

This means that the VaR that the Group measures is an estimate (using a confidence level of 99% of the potential loss) that is not expected to be exceeded if the current market positions were to be held unchanged for 1 or 10 days. The use of 99% confidence level depicts that within a 1-day horizon, losses exceeding VaR figure should occur, on average, not more than once every hundred days.

The VaR represents the risk of portfolios at the close of a business day, and it does not account for any losses that may occur beyond the defined confidence interval. The actual trading results however, may differ from the VaR calculations and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions.

To overcome the VaR limitations mentioned above, the Group also carries out stress tests of both non-trading and trading portfolios to simulate conditions outside normal confidence intervals using six stress scenarios for the entire Group. The potential losses occurring under stress test conditions are reported regularly to the Group's Asset Liability Committee (ALCO) for their review.

The Group’s VaR related information for the year ended December 31, 2018 and 2017 using a 1 day holding period at 99% confidence interval is set out below. All the figures are in million SAR:

	2018			
	Foreign exchange rate risk	Special commission rate risk	Equity price risk	Overall risk
VaR as at December 31, 2018	3.71	2.83	5.54	10.33
Average VaR for 2018	7.87	1.31	5.04	13.54
Maximum VaR for 2018	27.39	4.34	5.54	32.97
Minimum VaR for 2018	1.58	0.04	4.82	6.41

	2017			
	Foreign exchange rate risk	Special commission rate risk	Equity price risk	Overall risk
VaR as at December 31, 2017	1.96	0.42	4.97	7.12
Average VaR for 2017	8.59	0.58	5.03	13.87
Maximum VaR for 2017	20.28	1.15	5.11	25.36
Minimum VaR for 2017	0.45	0.18	4.90	5.52

31. MARKET RISK (continued)

31.2 Market Risk - Non-trading or Banking Book (continued)

i) Special commission rate risk

Special commission rate risk arises from the possibility that the changes in special commission rates will affect either the fair values or the future cash flows of the financial instruments. The Group has established net special commission Income at Risk and Market Value at Risk (MVaR) limits that are monitored by ALCO. There are gap limits to accommodate Forward FX and Money Market for USD, SAR and other major currencies. The Group monitors positions daily and uses hedging strategies to ensure maintenance of positions within the established gap limits.

The following table depicts the sensitivity to a reasonable possible change in special commission rates, with other variables held constant, on the Group's consolidated statement of income or equity.

The sensitivity of the income is the effect of the assumed changes in special commission rates on the net special commission income for one year, on the non-trading financial assets and financial liabilities held as at December 31, 2018 and 2017, including the effect of hedging instruments.

The sensitivity of equity is calculated by revaluing the fixed rate FVOCI (2017: Available for sale financial assets), including the effect of any associated hedges as at December 31, 2018 and 2017 for the effect of assumed changes in special commission rates. The sensitivity of equity is analysed by maturity of the asset or swap. All the banking book exposures are monitored and analysed in currency concentrations and relevant sensitivities are disclosed in SAR million.

2018

Currency	Increase in basis points	Sensitivity of special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years	Over 5 years	
SAR	+ 100	310.00	-	-	-	-	-
USD	+ 100	(50.00)	(0.64)	(0.70)	(44.81)	(303.27)	(349.42)
EUR	+ 100	(8.00)	(0.01)	-	(0.42)	(0.56)	(0.99)
GBP	+ 100	(0.60)	-	-	-	-	-
JPY	+ 100	4.96	-	-	-	-	-
Others	+ 100	(0.57)	-	-	-	-	-

Currency	Decrease in basis points	Sensitivity of special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years	Over 5 years	
SAR	- 100	(310.00)	-	-	-	-	-
USD	- 100	50.00	0.64	0.70	44.81	303.27	349.42
EUR	- 100	-	0.01	-	0.42	0.56	0.99
GBP	- 100	0.40	-	-	-	-	-
JPY	- 100	(4.96)	-	-	-	-	-
Others	- 100	0.57	-	-	-	-	-

31. MARKET RISK (continued)

31.2 Market Risk - Non-trading or Banking Book (continued)

i) Special commission rate risk (continued)

2017

Currency	Increase in basis points	Sensitivity of special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years	Over 5 years	
SAR	+ 100	243.73	-	-	-	-	-
USD	+ 100	(50.00)	(0.83)	(0.63)	(39.36)	(301.11)	(341.93)
EUR	+ 100	0.87	(0.01)	-	-	-	(0.01)
GBP	+ 100	(1.39)	-	-	-	-	-
JPY	+ 100	2.15	-	-	-	-	-
Others	+ 100	(0.74)	-	-	-	-	-

Currency	Decrease in basis points	Sensitivity of special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years	Over 5 years	
SAR	- 100	(243.73)	-	-	-	-	-
USD	- 100	51.00	0.83	0.63	39.36	301.11	341.93
EUR	- 100	(1.56)	0.01	-	-	-	0.01
GBP	- 100	-	-	-	-	-	-
JPY	- 100	(2.15)	-	-	-	-	-
Others	- 100	0.74	-	-	-	-	-

Special commission sensitivity of assets, liabilities and off statement of financial position items

The Group manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market special commission rates on its financial position and cash flows. The Group is exposed to special commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off statement of financial position instruments that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

31. MARKET RISK (continued)

31.2 Market Risk - Non-trading or Banking Book (continued)

ii) Special commission rate risk (continued)

The table below summarises the Group's exposure to special commission rate risks. Included in the table are the Group's assets, liabilities and shareholders' equity at carrying amounts, categorised by the earlier of contractual re-pricing or the maturity dates.

2018 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total
Assets						
Cash and balances with SAMA	2,459,863	-	-	-	13,863,309	16,323,172
Cash in hand	-	-	-	-	5,212,780	5,212,780
Balances with SAMA	2,459,863	-	-	-	8,650,529	11,110,392
Due from banks and other financial institutions	10,198,199	275,000	-	-	555,977	11,029,176
Current accounts	1,427,452	-	-	-	555,977	1,983,429
Money market placements	8,770,747	275,000	-	-	-	9,045,747
Positive fair value of derivatives	11,156	12,641	200,866	61,962	-	286,625
Investments, net	7,455,110	8,687,858	19,910,977	9,550,226	2,388,601	47,992,772
FVIS	-	-	-	-	393,272	393,272
FVOCI	798,891	441,728	5,912,461	5,577,862	1,995,329	14,726,271
Amortised cost	6,656,219	8,246,130	13,998,516	3,972,364	-	32,873,229
Investment in associates	-	-	-	-	595,493	595,493
Loans and advances, net	65,225,956	35,392,852	27,988,297	22,417,725	-	151,024,830
Overdraft	5,997,031	-	-	-	-	5,997,031
Credit cards	730,947	-	-	-	-	730,947
Consumer loans	171,433	325,318	22,331,390	21,521,090	-	44,349,231
Commercial loans	58,045,155	35,067,534	5,656,907	896,635	-	99,666,231
Others	281,390	-	-	-	-	281,390
Other real estate	-	-	-	-	227,405	227,405
Property and equipment, net	-	-	-	-	1,699,462	1,699,462
Other assets	348,506	-	-	-	372,135	720,641
Accounts receivable and others	348,506	-	-	-	372,135	720,641
Total assets	85,698,790	44,368,351	48,100,140	32,029,913	19,702,382	229,899,576
Liabilities and shareholders' equity						
Due to banks and other financial institutions	7,409,992	337,617	-	-	832,905	8,580,514
Current accounts	-	-	-	-	832,905	832,905
Money market deposits	7,409,992	337,617	-	-	-	7,747,609
Negative fair value of derivatives	33,147	6,612	144,052	90,459	-	274,270
Customer deposits	55,242,009	13,368,807	2,294,172	-	98,917,168	169,822,156
Demand	4,141,012	-	-	-	82,701,183	86,842,195
Saving	459,724	-	-	-	-	459,724
Time	50,641,273	13,368,807	2,294,172	-	-	66,304,252
Other	-	-	-	-	16,215,985	16,215,985
Debt securities in issue	-	4,003,783	-	-	-	4,003,783
Other liabilities	-	-	-	-	10,444,637	10,444,637
Accounts payable and others	-	-	-	-	10,444,637	10,444,637
Shareholders' equity	-	-	-	-	36,774,216	36,774,216
Total liabilities and shareholders' equity	62,685,148	17,716,819	2,438,224	90,459	146,968,926	229,899,576
Special commission rate sensitivity -On statement of financial position gap	23,013,642	26,651,532	45,661,916	31,939,454	(127,266,544)	-
Special commission rate sensitivity -Off statement of financial position gap	-	-	-	-	-	
Total special commission rate sensitivity gap	23,013,642	26,651,532	45,661,916	31,939,454	(127,266,544)	
Cumulative special commission rate sensitivity	23,013,642	49,665,174	95,327,090	127,266,544	-	

31. MARKET RISK (continued)

31.2 Market Risk - Non-trading or Banking Book (continued)

ii) Special commission rate risk (continued)

2017 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total
Assets						
Cash and balances with SAMA	5,099,960	-	-	-	13,404,295	18,504,255
Cash in hand	-	-	-	-	5,484,534	5,484,534
Balances with SAMA	5,099,960	-	-	-	7,919,761	13,019,721
Due from banks and other financial institutions	8,575,262	635,000	-	-	161,938	9,372,200
Current accounts	933,815	-	-	-	161,938	1,095,753
Money market placements	7,641,447	635,000	-	-	-	8,276,447
Positive fair value of derivatives	8,687	6,512	73,614	27,077	-	115,890
Investments, net	10,935,725	7,707,473	15,703,533	9,313,908	2,709,264	46,369,903
Trading portfolio	-	-	-	-	303,760	303,760
Available for sale	1,510,062	116,607	4,789,866	5,807,760	2,405,504	14,629,799
Other investments held at amortised cost	9,425,663	7,590,866	10,913,667	3,506,148	-	31,436,344
Investment in associates	-	-	-	-	564,769	564,769
Loans and advances, net	61,095,782	28,858,580	28,200,270	20,682,986	-	138,837,618
Overdraft	6,705,539	-	-	-	-	6,705,539
Credit cards	717,226	-	-	-	-	717,226
Consumer loans	153,621	433,720	20,962,566	19,874,710	-	41,424,617
Commercial loans	53,269,453	28,424,860	7,237,704	808,276	-	89,740,293
Others	249,943	-	-	-	-	249,943
Other real estate	-	-	-	-	235,119	235,119
Property and equipment, net	-	-	-	-	1,752,408	1,752,408
Other assets	209,941	-	-	-	320,068	530,009
Accounts receivable and others	209,941	-	-	-	320,068	530,009
Total assets	85,925,357	37,207,565	43,977,417	30,023,971	19,147,861	216,282,171
Liabilities and shareholders' equity						
Due to banks and other financial institutions	5,941,023	56,251	-	-	1,058,894	7,056,168
Current accounts	-	-	-	-	1,058,894	1,058,894
Money market deposits	5,941,023	56,251	-	-	-	5,997,274
Negative fair value of derivatives	14,468	7,195	30,802	25,458	-	77,923
Customer deposits	57,029,002	5,091,423	720,374	-	91,524,750	154,365,549
Demand	1,044,343	-	-	-	79,967,022	81,011,365
Saving	366,380	-	-	-	-	366,380
Time	55,618,279	5,091,423	720,374	-	-	61,430,076
Other	-	-	-	-	11,557,728	11,557,728
Debt securities in issue	4,011,562	4,005,077	-	-	-	8,016,639
Other liabilities	-	-	-	-	8,142,899	8,142,899
Accounts payable and others	-	-	-	-	8,142,899	8,142,899
Shareholders' equity	-	-	-	-	38,622,993	38,622,993
Total liabilities and shareholders' equity	66,996,055	9,159,946	751,176	25,458	139,349,536	216,282,171
Special commission rate sensitivity -On statement of financial position gap	18,929,302	28,047,619	43,226,241	29,998,513	(120,201,675)	-
Special commission rate sensitivity -Off statement of financial position gap	-	-	-	-	-	
Total special commission rate sensitivity gap	18,929,302	28,047,619	43,226,241	29,998,513	(120,201,675)	
Cumulative special commission rate sensitivity gap	18,929,302	46,976,921	90,203,162	120,201,675	-	

31. MARKET RISK (continued)

31.2 Market Risk - Non-trading or Banking Book (continued)

iii) Currency risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Board has set limits on positions by currencies, which are monitored daily, and hedging strategies are also used to ensure that positions are maintained within the limits.

The table below shows the currencies to which the Group has a significant exposure as at December 31, 2018 and 2017 on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonable possible movement of the currency rate against SAR, with all other variables held constant, on the consolidated statement of income (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity (due to change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges). A positive effect shows a potential increase in consolidated statement of income or equity; whereas a negative effect shows a potential net reduction in consolidated statement of income or equity.

Currency Exposures As at December 31, 2018 (SAR million)	Change in currency rate in %	Effect on net income
USD	± 1	± 4.45
EUR	± 1	± 0.46
GBP	± 1	± 0.01
JPY	± 1	± 0.32
Others	± 1	± (0.04)

Currency Exposures As at December 31, 2017 (SAR million)	Change in currency rate in %	Effect on net income
USD	± 1	± 5.19
EUR	± 1	± 0.59
GBP	± 1	± 0.09
JPY	± 1	± 0.13
Others	± 1	± (0.02)

iv) Foreign currency risk

The Group manages exposure to effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for overnight positions, which are monitored daily. At the end of the year, the Group had the following significant net exposures denominated in foreign currencies:

	2018 Long (short) SAR'000	2017 Long (short) SAR'000
US Dollar	759,314	618,153
Japanese Yen	1,795	16
Euro	414	(3,914)
Pound Sterling	(246)	(1,864)
Others	35,956	41,124

Long position indicates that assets in a foreign currency are higher than the liabilities in the same currency; the opposite applies to short positions.

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31. MARKET RISK (continued)

31.2 Market Risk - Non-trading or Banking Book (continued)

v) Banking Book - Equity Price risk

Equity risk refers to the risk of decrease in fair values of equities in the Group's non-trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks.

The effect on the Group's FVOCI (2017: Available for sale financial) equity investments due to reasonable possible change in equity indices, with all other variables held constant, is as follows:

Market Index	December 31, 2018		December 31, 2017	
	Change in equity index %	Effect in SAR millions	Change in equity index %	Effect in SAR millions
Tadawul	+5	59.61	+5	47.32
	+10	119.23	+10	94.64
	-5	(59.61)	-5	(47.32)
	-10	(119.23)	-10	(94.64)

32. LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up. To mitigate this risk, the bank has diversified sources of funding sources and assets are managed with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents and readily marketable securities.

Management monitors the maturity profile the balance sheet to ensure that adequate liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions.

All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Group. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% (2017: 7%) of total demand deposits and 4% (2017: 4%) of saving and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of its deposit liabilities, in the form of cash, gold, Saudi Government Development Bonds, Treasury bills or assets which can be converted into cash within a period not exceeding 30 days. The Bank has the ability to raise additional funds through repo facilities with SAMA, from 85% to 100% of the nominal value of bonds/ bills held by the Bank.

32. LIQUIDITY RISK (continued)

a) The table below summarises the maturity profile of the Group's financial liabilities at December 31, 2018 and 2017 based on contractual undiscounted repayment obligations. As special commission payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the reporting date to the contractual maturity date and do not take into account the effective expected maturities. The Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not affect the expected cash flows indicated by the Group's deposit retention history. The undiscounted maturity profile of the financial liabilities is as follows:

2018 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Financial liabilities					
Due to banks and other financial institutions	8,261,099	339,735	-	-	8,600,834
Current accounts	832,905	-	-	-	832,905
Money market deposits	7,428,194	339,735	-	-	7,767,929
Customer deposits	152,411,341	14,607,249	3,319,674	38,145	170,376,409
Demand	86,842,195	-	-	-	86,842,195
Saving	459,726	-	-	-	459,726
Time	50,873,370	13,586,168	2,398,965	-	66,858,503
Other	14,236,050	1,021,081	920,709	38,145	16,215,985
Debt securities in issue	40,029	122,310	649,356	4,244,845	5,056,540
Derivative financial instruments (gross contractual amounts payable)	40,637	59,751	336,949	117,806	555,143
Total undiscounted financial liabilities	160,753,106	15,129,045	4,305,979	4,400,796	184,588,926

2017 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Financial liabilities					
Due to banks and other financial institutions	7,005,616	56,268	-	-	7,061,884
Current accounts	1,058,894	-	-	-	1,058,894
Money market deposits	5,946,722	56,268	-	-	6,002,990
Customer deposits	146,759,732	6,236,802	1,455,415	39,071	154,491,020
Demand	81,011,365	-	-	-	81,011,365
Saving	366,382	-	-	-	366,382
Time	55,729,726	5,105,170	720,649	-	61,555,545
Other	9,652,259	1,131,632	734,766	39,071	11,557,728
Debt securities in issue	56,600	169,800	4,693,463	4,350,782	9,270,645
Derivative financial instruments (gross contractual amounts payable)	52,299	143,122	367,173	15,708	578,302
Total undiscounted financial liabilities	153,874,247	6,605,992	6,516,051	4,405,561	171,401,851

32. LIQUIDITY RISK (continued)

b) The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

2018 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	7,672,643	-	-	-	8,650,529	16,323,172
Cash in hand	5,212,780	-	-	-	-	5,212,780
Balances with SAMA	2,459,863	-	-	-	8,650,529	11,110,392
Due from banks and other financial institutions	10,754,176	275,000	-	-	-	11,029,176
Current accounts	1,983,429	-	-	-	-	1,983,429
Money market placements	8,770,747	275,000	-	-	-	9,045,747
Positive fair value of derivatives	11,156	12,641	200,866	61,962	-	286,625
Investments, net	5,343,882	1,345,109	21,343,815	17,571,365	2,388,601	47,992,772
FVIS	-	-	-	-	393,272	393,272
FVOCI	209,263	461,362	6,130,976	5,929,341	1,995,329	14,726,271
Amortised cost	5,134,619	883,747	15,212,839	11,642,024	-	32,873,229
Investment in associates	-	-	-	-	595,493	595,493
Loans and advances, net	50,246,419	26,432,328	37,924,610	36,421,473	-	151,024,830
Overdraft	5,997,031	-	-	-	-	5,997,031
Credit cards	730,947	-	-	-	-	730,947
Consumer loans	171,433	325,318	22,331,390	21,521,090	-	44,349,231
Commercial loans	43,065,618	26,107,010	15,593,220	14,900,383	-	99,666,231
Others	281,390	-	-	-	-	281,390
Other real estate	-	-	-	-	227,405	227,405
Property and equipment, net	-	-	-	-	1,699,462	1,699,462
Other assets	348,506	-	-	-	372,135	720,641
Accounts receivable and others	348,506	-	-	-	372,135	720,641
Total assets	74,376,782	28,065,078	59,469,291	54,054,800	13,933,625	229,899,576
Liabilities and shareholders' equity						
Due to banks and other financial institutions	8,242,897	337,617	-	-	-	8,580,514
Current accounts	832,905	-	-	-	-	832,905
Money market deposits	7,409,992	337,617	-	-	-	7,747,609
Negative fair value of derivatives	33,147	6,612	144,052	90,459	-	274,270
Customer deposits	152,179,242	14,389,888	3,214,881	38,145	-	169,822,156
Demand	86,842,195	-	-	-	-	86,842,195
Saving	459,724	-	-	-	-	459,724
Time	50,641,273	13,368,807	2,294,172	-	-	66,304,252
Other	14,236,050	1,021,081	920,709	38,145	-	16,215,985
Debt securities in issue	-	-	-	4,003,783	-	4,003,783
Other liabilities	-	-	-	-	10,444,637	10,444,637
Accounts payable and others	-	-	-	-	10,444,637	10,444,637
Shareholders' equity	-	-	-	-	36,774,216	36,774,216
Total liabilities and shareholders' equity	160,455,286	14,734,117	3,358,933	4,132,387	47,218,853	229,899,576

32. LIQUIDITY RISK (continued)

b) Analysis of assets and liabilities analysed according to when they are expected to be recovered or settled (continued).

2017 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	10,584,494	-	-	-	7,919,761	18,504,255
Cash in hand	5,484,534	-	-	-	-	5,484,534
Balances with SAMA	5,099,960	-	-	-	7,919,761	13,019,721
Due from banks and other financial institutions	8,737,200	635,000	-	-	-	9,372,200
Current accounts	1,095,753	-	-	-	-	1,095,753
Money market placements	7,641,447	635,000	-	-	-	8,276,447
Positive fair value of derivatives	8,687	6,512	73,614	27,077	-	115,890
Investments, net	3,416,420	4,642,727	17,675,388	17,926,104	2,709,264	46,369,903
Trading portfolio	-	-	-	-	303,760	303,760
Available for sale	356,220	397,681	5,008,498	6,461,896	2,405,504	14,629,799
Other investments held at amortised cost	3,060,200	4,245,046	12,666,890	11,464,208	-	31,436,344
Investment in associates	-	-	-	-	564,769	564,769
Loans and advances, net	40,731,476	18,668,451	36,917,876	42,519,815	-	138,837,618
Overdraft	6,705,539	-	-	-	-	6,705,539
Credit cards	717,226	-	-	-	-	717,226
Consumer loans	153,621	433,720	20,962,566	19,874,710	-	41,424,617
Commercial loans	32,905,147	18,234,731	15,955,310	22,645,105	-	89,740,293
Others	249,943	-	-	-	-	249,943
Other real estate	-	-	-	-	235,119	235,119
Property and equipment, net	-	-	-	-	1,752,408	1,752,408
Other assets	209,941	-	-	-	320,068	530,009
Accounts receivable and others	209,941	-	-	-	320,068	530,009
Total assets	63,688,218	23,952,690	54,666,878	60,472,996	13,501,389	216,282,171
Liabilities and shareholders' equity						
Due to banks and other financial institutions	6,999,917	56,251	-	-	-	7,056,168
Current accounts	1,058,894	-	-	-	-	1,058,894
Money market deposits	5,941,023	56,251	-	-	-	5,997,274
Negative fair value of derivatives	14,468	7,195	30,802	25,458	-	77,923
Customer deposits	146,648,283	6,223,055	1,455,140	39,071	-	154,365,549
Demand	81,011,365	-	-	-	-	81,011,365
Saving	366,380	-	-	-	-	366,380
Time	55,618,279	5,091,423	720,374	-	-	61,430,076
Other	9,652,259	1,131,632	734,766	39,071	-	11,557,728
Debt securities in issue	-	-	4,011,562	4,005,077	-	8,016,639
Other liabilities	-	-	-	-	8,142,899	8,142,899
Accounts payable and others	-	-	-	-	8,142,899	8,142,899
Shareholders' equity	-	-	-	-	38,622,993	38,622,993
Total liabilities and shareholders' equity	153,662,668	6,286,501	5,497,504	4,069,606	46,765,892	216,282,171

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, balances with SAMA, items in the course of collection; loans and advances to banks; and loans and advances to customers. The cumulative maturities of commitments and contingencies are given in note 19 c) .

33. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

Level 1: quoted market price: financial instruments with quoted unadjusted prices for identical instruments in active markets.

Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based

Level 3: valuation techniques for which any significant input is not based on observable market data.

Fair value and fair value hierarchy

2018 SAR'000	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Investments Held as FVIS	392,484	788		393,272
Investments Held as FVOCI	14,437,395	-	288,876	14,726,271
Positive fair value derivatives	-	286,625	-	286,625
Financial liabilities measured at fair value				
Negative fair value derivatives	-	274,270	-	274,270

2017 SAR'000	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Investments Held as FVIS	303,760	-	-	303,760
Available for sale investments	14,313,044	843	315,912	14,629,799
Positive fair value derivatives	-	115,890	-	115,890
Financial liabilities measured at fair value				
Negative fair value derivatives	-	77,923	-	77,923

The fair value of loans and advances, net amounts to SAR 155,451 million (2017: SAR 143,052 million).

The management uses discounted cash flow method, using the current yield curve adjusted for credit risk spreads to arrive at the fair value of loans and advances. Cash and balances with SAMA, due from banks with maturity of less than 90 days and other short term receivables, other assets and other liabilities are assumed to have fair values that reasonably approximate their corresponding carrying values due to the short-term nature. The fair value of investments held at amortized cost amounted to SAR 32,825 million (2017: SAR 31,545 million)

The fair values of due from banks and other financial institutions, due to banks and other financial institutions, customer deposits and debt securities issued at 31 December 2018 and 2017 approximate their carrying values.

There were no transfers between the fair value hierarchy levels.

33. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

Although the Group believes that its estimates of fair value of Level 3 securities are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. Level 3 consists of local and international unquoted equity securities. The Group uses net assets valuation and price to book value method based on most recent available audited financial statements to fair value these investments. Other methodology that could be used to value the securities is discounted cash flow model based on expected dividend yield for which no data is available. Therefore potential impact of using reasonably possible alternative assumptions for the valuation techniques is not quantified.

Reconciliation of movement in Level 3	2018 SAR'000	2017 SAR'000
Opening balance	315,912	266,649
Total gains or losses		
- recognised in consolidated statement of income	18,536	2,145
- recognised in other comprehensive income	(45,572)	47,118
Redemptions	-	-
Purchases	-	-
Closing balance	288,876	315,912

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

a) In the principal market for the asset or liability, or

b) In the absence of a principal market, in the most advantageous accessible market for the asset or liability.

34. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Group transacts business with related parties. Related party transactions are governed by the limits set by the Banking Control Law and regulations issued by SAMA. The balances at December 31 resulting from such transactions are as follows:

	2018 SAR'000	2017 SAR'000
a) Directors, key management personnel, other major shareholders' and their affiliates:		
Loans and advances	6,446,784	3,428,410
Customer deposits	26,552,085	26,136,098
Derivatives asset (at fair value)	6,378	2,972
Commitments and contingencies (irrevocable)	6,786,554	2,099,008
Executive end of service	32,671	52,518

Key management personnel are those persons, including a non-executive director, having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

b) Bank's mutual funds:		
Customer deposits	-	135,000

34. RELATED PARTY TRANSACTIONS (continued)

Income and expenses pertaining to transactions with related parties included in these consolidated financial statements are as follows:

	2018 SAR'000	2017 SAR'000
Special commission income	322,129	119,614
Special commission expense	403,924	420,291
Fees from banking services, net	174,092	112,150
Directors and committees remuneration and expenses	5,772	5,445
Executive remuneration and bonus	67,621	64,375
Executive end of service	3,984	4,681
Other expenses	50,872	23,713

35. CAPITAL ADEQUACY

The Group's objectives when managing capital are to comply with the capital requirements set by SAMA to safeguard the Group's ability to continue as a going concern and to maintain a strong capital base.

The Group monitors the adequacy of its capital using the methodologies and ratios established by the Basel Committee on Banking Supervision and as adopted by SAMA, with a view to maintain a sound capital base to support its business development and meet regulatory capital requirement as defined by SAMA.

The Group management reviews on a periodical basis its capital base and level of risk weighted assets to ensure that capital is adequate for risks inherent in its current business activities and future growth plans. In making such assessments, the management also considers the Group’s business plans along with economic conditions which directly and indirectly affect its business environment. SAMA has issued the framework and guidance regarding implementation of the capital reforms under Basel III - which are effective from January 1, 2013. Accordingly, the Group’s consolidated Risk Weighted Assets (RWA), total eligible capital and related ratios on a consolidated group basis are calculated under the Basel III framework.

The following table summarizes the Group's Pillar-1 Risk Weighted Assets, Tier 1 and Tier 2 capital and capital adequacy ratios.

	2018		2017	
	Capital SAR'000	Ratio %	Capital SAR'000	Ratio %
Top consolidated level				
Tier 1 capital	36,774,216	16.1%	38,622,993	17.3%
Tier 2 capital	4,383,731		5,072,349	
Total regulatory capital (Tier 1 + Tier 2)	41,157,947	18.1%	43,695,342	19.6%

	2018 SAR '000s	2017 SAR '000s
Risk weighted assets		
Credit risk weighted assets	210,879,810	207,783,403
Operational risk weighted assets	14,705,072	14,035,238
Market risk weighted assets	2,330,200	1,250,963
Total Pillar 1 Risk Weighted Assets	227,915,082	223,069,604

36. STAFF INVESTMENT SAVINGS PLANS

The Group operates a Staff Savings Investment Plan. Under the terms of the Staff Savings Investment Plan, participating employees of the Group make monthly contributions by way of a deduction from their salary subject to a maximum of 15% of their basic salaries. The Group also contributes on a monthly basis a pre-determined percentage (subject to a maximum of 6%) of the basic salary of an employee based on the varying service periods. The proceeds are invested in the Group’s existing range of mutual funds for the benefit of the employees.

The cost of the above plan is charged to the consolidated statement of income over the term of the plan.

37. INVESTMENT MANAGEMENT SERVICES

The Group offers investment management services to its customers, which include management of certain investment funds with assets totaling SAR 31.4 billion (2017: SAR 24.4 billion).

The Group's assets under management include non-interest based funds amounting to SAR 8.2 billion (2017: SAR 8.1 billion).

38. PROSPECTIVE CHANGES IN THE INTERNATIONAL FINANCIAL REPORTING FRAMEWORK

The Group has chosen not to early adopt the following new standards which have been issued but not yet effective for the Group's accounting years beginning on or after 1 January 2019 and is currently assessing their impact.

Following is a brief on the new IFRS and amendments to IFRS, effective for annual periods beginning on or after January 01, 2019:

- IFRS 16 – "Leases", applicable for the period beginning on or after 1 January 2019. The new standard eliminates the current dual accounting model for lessees under IAS 17, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 proposes on-balance sheet accounting model.

  -Transition to IFRS 16

  The Group plans to adopt IFRS 16 retrospectively to each prior reporting period presented. The Group will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

  The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e., personal computers, printing and photocopying machines) that are considered of low value.

  During 2018, the Group has performed an assessment of IFRS 16 and the impact is not material to the Group's consolidated financial statements as a whole.

- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement, applicable for the period beginning on or after 1 January 2019. The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period.

For other Standards, amendments or interpretations effective for annual periods beginning on or after 1 January 2019, the Group does not anticipate that these will have a material impact.

39. COMPARATIVE FIGURES

Certain other comparative amounts have been reclassified to conform with the current year presentation

40. BOARD OF DIRECTORS' APPROVAL

These consolidated financial statements were approved by the Board of Directors on Jumada Al-Awwal 24, 1440 (corresponding to January 30, 2019).

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