Annual Report 2018

مصرف الراجحي

Al Rajhi Bank

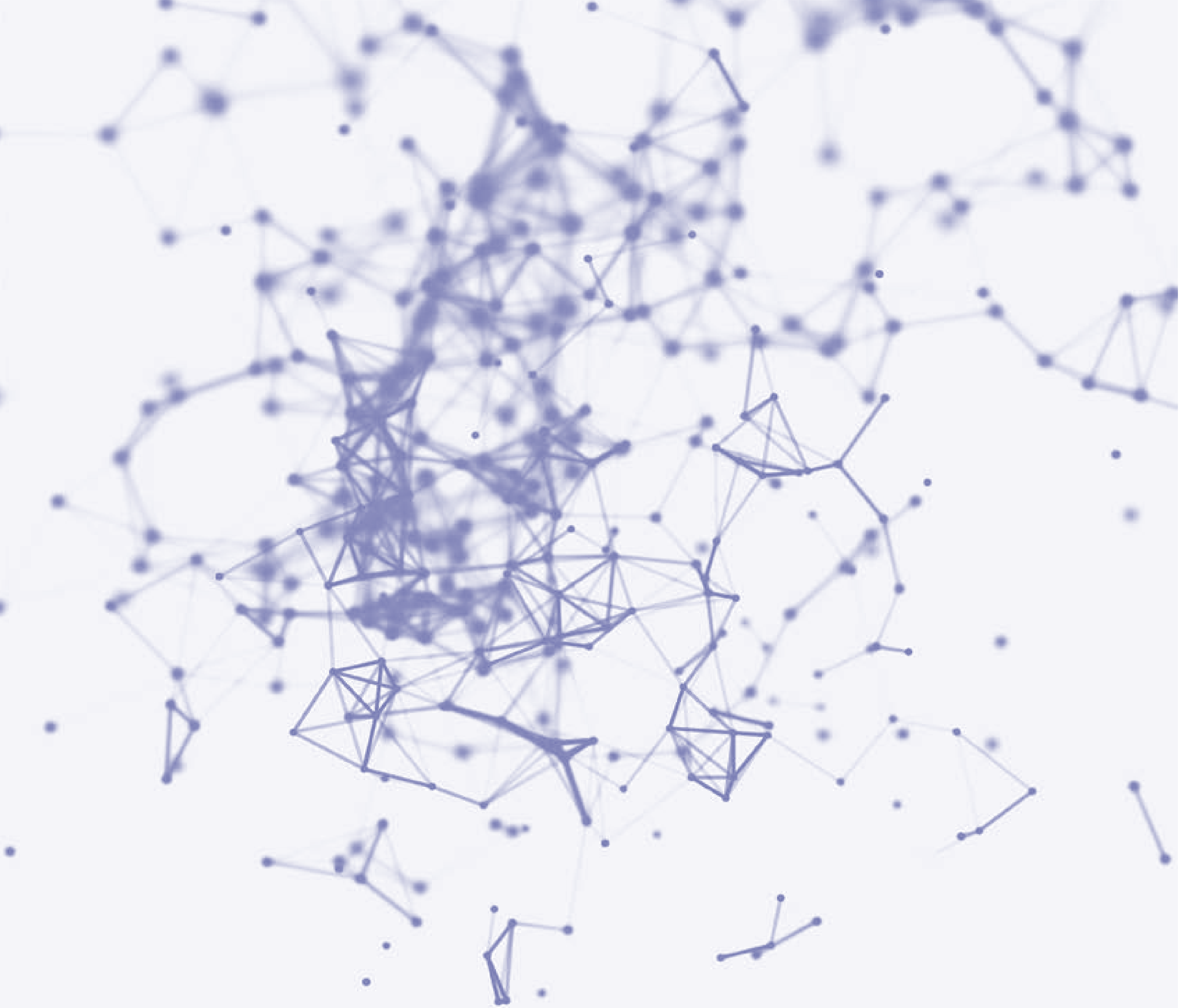
In The Name of Allah
The Most Merciful, The Most Gracious

The Custodian of the Two Holy Mosques
King Salman Bin Abdulaziz Al Saud

His Royal Highness Crown Prince
Mohammad Bin Salman Bin Abdulaziz Al Saud

مصرف الراجحي
Al Rajhi Bank

As "The Blue-chip Islamic Bank", our strong foundation continues to produce robust returns. A few years ago, we developed a strategic path that began with going back to basics, that formed a solid foundation for successful progress. Today, as we welcome the emerging new technologies and continue to attract new digital customers, we are excited about the bright future ahead.



The Blue-chip Islamic Bank

Annual Report 2018

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The web and mobile HTML versions are published online on the same date as the date of issue of this publication at

https://arb.sa/report2018

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About the Bank

The Bank →

Vision, Mission, and Values

Our Vision

To be a trusted leader delivering innovative financial solutions to enhance the quality of life of people everywhere.

Our Mission

To be the most successful bank admired for its innovative service, people, technology, and Sharia compliant products, both locally and internationally.

Our Values

Everything the Bank does is built around its core values, which puts the customer at the heart of all its activities.

- **Integrity and transparency**
  Being open and honest while maintaining the highest standards of corporate and personal ethics
- **A passion to serve**
  Anticipating and addressing customer needs to deliver results that go beyond expectations
- **Solution oriented**
  Helping the customers achieve their objectives through effective and efficient solutions
- **Modesty and humility**
  Being humble in thought, word, and deed
- **Innovativeness**
  Nurturing imagination and fostering creativity for better results
- **Meritocracy**
  Defining, differentiating, and reinforcing excellence in people
- **Care for society**
  Contributing towards a better tomorrow

History

Referred to as the "Bank" in this document, Al Rajhi Bank (ARB) received its current name in 2006 but was originally established in 1957 as an exchange house and converted to a bank under the name Al Rajhi Banking Corporation in 1987. The Bank is a Saudi joint stock company that was formed and licensed in accordance with Royal Decree No. M/59 and Article 6 of the Council of Ministers' Resolution No. 245, both of June 1987. With its headquarters in Riyadh, Kingdom of Saudi Arabia, the Bank operates under Commercial Registration No. 1010000096 and is listed on the Saudi Stock Exchange (Tadawul) with the Ticker No. RJHI.

Objectives

The Bank's objectives are to carry out banking and investment activities within the Kingdom of Saudi Arabia, and beyond, pursuant to the Bank's Articles of Association and Bylaws, the Banking Control Law and the Council of Ministers' Resolution (mentioned previously under History), and in compliance with Islamic Sharia legislations.

Operations and reach

The second largest Bank in the Kingdom in terms of assets and the largest Islamic bank in the world, Al Rajhi Bank (ARB) accounted for 16.1% of total assets and 17.3% of total deposits among banks in the Kingdom as of end 2018. The Bank's market capitalisation as of 31 December 2018 was SAR 142.2 Bn. Total Group assets amounted to SAR 365 Bn. as of 31 December 2018.

The Bank delivers its services through diverse channels for the convenience of its customers. These consist of both traditional and modern channels, including an extensive network of 551 branches including 157 ladies branches and sections, 5,006 ATMs and 83,958 POS terminals that span the Kingdom, in addition to online banking and mobile banking services. While managing the largest branch network in the Middle East, the Bank also operates 10 branches in Jordan and two branches in Kuwait while its subsidiary in Malaysia operates 18 branches.

About the Bank

With over nine million customers, the Bank serves the largest customer base in the Kingdom, processing the payrolls of over 50% of government employees. Handling an average of 172 million transactions per month and over a million remittances, the Bank now partners with over 200 correspondent banks in around 50 countries. Its employee cadre numbered 12,732 at end 2018 making the Bank among the top 10 employers in the Kingdom and the largest employer in the financial sector.

Al Rajhi Bank Group →

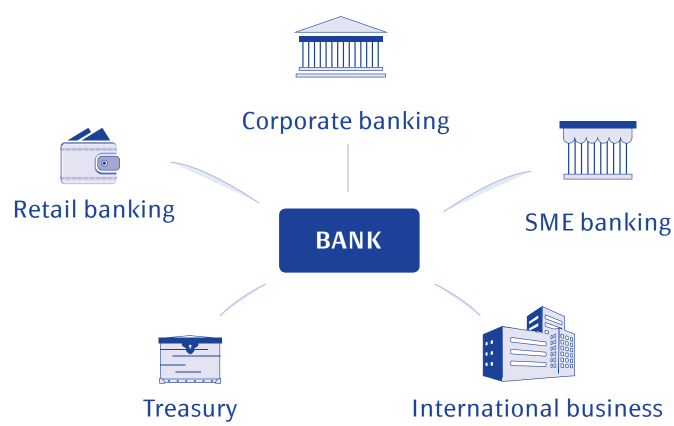
Meticulous adherents of Islamic Banking principles, the members of the Al Rajhi Bank Group consist of seven subsidiaries in addition to the Bank. Four of these subsidiaries are situated within the Kingdom (refer Review of Subsidiaries on page 83) while three are located overseas. Together the Group provides clients with innovative financial and other products and services that combine Islamic values with modern commercial requirements.

Refer Review of Subsidiaries on page 83.

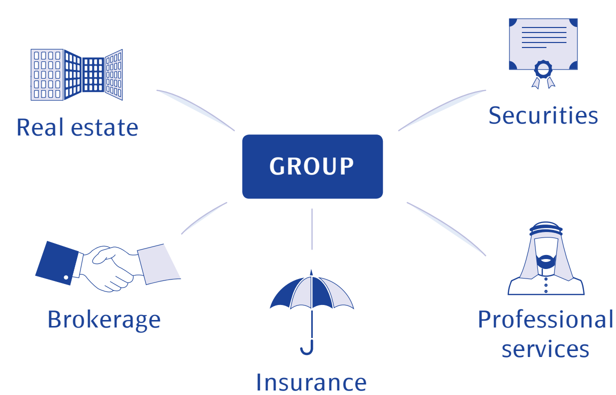
Products and services

In line with the rapidly changing international banking landscape the Bank provides a range of products and services to meet the needs of its varied customer groups.

Refer Review of Business Portfolio on page 59.



Together the Group provides additional services including:



Value Drivers

Customer deposits
(SAR Mn.)

2018 – **293,909**
2017 – 273,056

Increase: 7.60%

Female customers
Growth of **30%**
over the last three years

Earnings per share
(SAR)

2018 – **6.34**
2017 – 5.61

Increase: 13.00%

Cost to income ratio
(%)

2018 – **31.70**
2017 – 32.90

Improved: 120 bps

Total capital adequacy ratio
(%)

2018 – **20.20**
2017 – 23.30

Total assets
(SAR Bn.)

2018 – **365**
2017 – 343

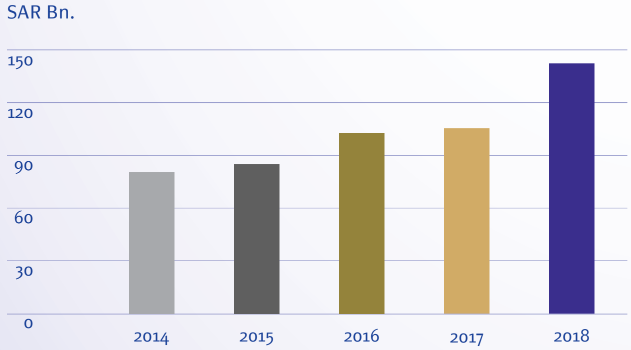
Increase: 6.40%

Net income
(SAR Bn.)

2018 – **10.30**
2017 – 9.10

Increase: 12.90%

Market capitalisation



Digital: manual ratio

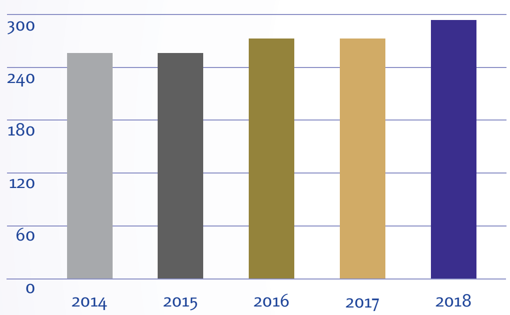
2018 – **56:44**
2017 – 49:51

3.7 Mn.

Active digital users

Customer Deposits

SAR Bn.



Staff strength

2018 – **12,732**

Saudisation rate

(%)

2018 – **96**

Largest Islamic Bank worldwide

by assets and market capitalisation

No. 1 retail bank in the Middle East

in retail deposits and income

No. 1 Distribution network in the Middle East

by number of branches, POS, ATMs and remittance centres

No. 1 in banking transactions in the KSA

4 of 10 transactions in KSA

No. 1 Bank brand in the KSA

Brand Power Score

Completed in 2018, Al Rajhi Bank Tower is the Bank's new head office building which stands out in Riyadh's ever-changing skyline

Leadership

Message from the Chairman

Recording another record year, the Bank continued to grow and fortify its position as the world's largest Islamic Bank. Group net income for the current year increased to SAR 10,297 Mn. from SAR 9,121 Mn. in 2017. This achievement is all the more significant given the complex dynamics at work in the wider operating environment.

Traversing closer to Vision 2030 →

As Saudi Arabia pushes ahead with plans to reduce dependence on oil and diversify the economy, the Bank continued to align its own strategies with KSA's Vision 2030. The Kingdom's focus on further revitalising the financial sector by fostering private sector growth, creating an advanced capital market, and nurturing financial responsibility among its people will contribute greatly towards its goal of being a global investment powerhouse. During the year under review, the Kingdom continued to make good progress in its mission to achieve its Vision 2030 goals. With GDP continuing to grow, private sector contribution to GDP which was 48.2% in 2017 is projected to be well on its way to reach the target of 65% by 2030. Public debt to GDP is projected to be 21% by end 2018. Saudi owned dwellings (occupied with Saudi households) increased from 49.1% in 2017 to 51.7% in 2018, while foreign direct investment edged up to USD 2,388 Mn. for the three quarters ended 30 September 2018 compared to USD 1,420 in 2017.

Within Saudi Arabia, our five strategic pillars, which focus on growth, employees, customers, digital leadership, and execution excellence, are continuing to show robust results. Our subsidiary in Malaysia and our branches in Kuwait and Jordan ensure that the Bank remains geographically diverse. We will continue forging strong partnerships beyond our borders to provide our stakeholders with greater value over the years to come.

Plotting a sustainable course →

The Bank is fully aware of its responsibility to be sustainable in running every aspect of its business. Corporate governance at the Bank covers the rules, practices, systems and procedures which direct and control its activities. Our governance structure helps the Bank to balance the interests of our multiple stakeholder groups as we focus our energies on value creation.

The Corporate Governance Manual and Regulations for Board Committees and Management Committees, published in 2014, are reviewed annually to ensure that they remain relevant to the changing times. We also apply the key principles of the Saudi Arabian Monetary Agency's (SAMA) Corporate Governance Code for Banks in all our operations within the Kingdom of Saudi Arabia and Corporate Governance Regulations issued by CMA.

Such stringent adherence to corporate governance is vitally important in an environment that is continuously in motion. Every day new players alight on the global arena, disrupting the banking industry as we know it with advanced technology that had not even been dreamed of a few years ago. If we do not move nimbly to capitalise on the opportunities while mitigating the risks, we and our stakeholders risk being marooned in the past.

Message from the Chairman

The Board is well aware of these developments and has already taken prudent but pragmatic steps to make the best of such rapid advancements. A number of policies, practices and procedures relating to corporate governance were developed during the year and the Governance Manual updated. In addition, the Delegation of Authorities (DOA) matrix has been amended according to regulator requirements.

An independent policy of the Bank relating to conflicts of interest was adopted while the policy on related party transactions was also approved. The aim of approving of such policy is to establish guidelines to deal with transactions which have conflict of interest.

Provisioning for the future →

We are well aware of the critical role that employees play in the success of the Bank. To ensure that our employees career development needs are met, the Bank adopted the competencies and functional succession policy. This policy also helps meet the immediate and future staffing needs of the Bank. The promotion of Saudisation is another benefit of these policies.

To create and sustain an open and enabling culture within the Bank, the violations reporting policy was also adopted. It encourages the reporting of improper behaviour or any activity that violates the Bank's policies, procedures and instructions.

Naturally, we also apply SAMA regulations regarding remuneration in accordance with the provisions of the Saudi Company Law.

Our shareholders are a key stakeholder group that the Bank is committed to continue serving. As a result of their trust and loyalty, the Bank is ultimately provided with the means to expand its business further or capitalise on sudden business opportunities, should the need arise. To retain their trust and promote transparency, the Bank ensured that all material information, inclusive of banking information required to be disclosed by SAMA and CMA regulations, was also disclosed to shareholders.

Focusing on strengthening the Bank's role in society, we also adopted a policy for social responsibility. We continue to give back to the community by supporting a range of programmes that are geared to provide relief and support for the marginalised or disabled segments of society. We are immensely proud of the active participation of our employees in community efforts and look forward to an increase in the number of volunteer hours contributed. Taking a leadership role in increasing financial literacy among the communities within which we operate, we also undertook a number of awareness programmes during the year.

Dividends →

I am pleased to report that the Bank distributed a dividend of SAR 2 per share for the first half of 2018, and proposed a final dividend of SAR 4.25 per share. Total dividends for the year amounted to SAR 6,906 Mn., representing 67% of earnings.

Acknowledgements →

Together with the Board of Directors, I express our appreciation to the Custodian of the Two Holy Mosques and the Crown Prince for their strategic vision and leadership.

My appreciation, expressed on behalf of the Board, also goes out to the Ministries of Finance, and Commerce and Investment; the Saudi Arabian Monetary Agency; the Capital Market Authority; and their eminences the Chairman and the members of the Bank's Sharia Board, for their invaluable advice and guidance.

The Board and I extend our gratitude to our shareholders, correspondent banks and customers. We also thank all employees for their dedication towards making the Bank's Vision and Mission a reality. In conclusion, I thank my colleagues on the Board of Directors whose support and counsel I hold in high regard.

Abdullah bin Sulaiman Al Rajhi

Chairman

Chief Executive Officer's Review

Just as the Kingdom is in the process of a great transformation, the Bank too continues to engage in its own journey of change – one that will complement and contribute towards Saudi Arabia's Vision 2030. During the year under review, we accelerated our transformation, continuing to deliver superior returns for our shareholders while further enhancing our customer and staff engagement.

Accelerate growth →

For all our shareholders, the starting point of their expectations remains value creation through accelerated growth – growth which, while it exceeds industry, remains both prudent and pragmatic. Building on its momentum, the Bank outperformed peers in the market yet again, registering meaningful market share improvements across key product lines. Our mortgage portfolio grew by over 27% through the introduction of new products such as Self Construction, a home financing solution for Ministry of Housing and Real Estate Development Fund beneficiaries. These efforts increased the Bank's market share to 27.9% compared with 20.6% three years ago. The Bank also registered market share increases of 4.6%, 6.6% and 30% in terms of remittance centres, current accounts, and female customers respectively. With 551 branches, including 157 ladies sections and branches and 236 remittance centres as well as 300 affluent lounges, we ensured that the Bank's distribution network remained the largest and most technologically advanced in the Kingdom.

To further accelerate growth, we introduced many firsts during the year, such as "FX Forwards", a first of its kind in the Islamic hedging market, and also a comprehensive Supply Chain Financing programme which provides a wide range of solutions for corporate customers. We also launched POS Merchant Financing for Small and Medium Enterprises, merging our SME and retail arms to leverage our network and enhance customer service.

While we remained focused on our domestic organic strategy we continued to invest outside the Kingdom. In Kuwait, we became the first foreign Bank to launch a second branch. In Jordan, we opened three more branches, which will provide our customers with a wide range of banking products and services. Malaysia performance improved substantially and we signed an exclusive 10-year agreement with Sun Life Malaysia Takaful Berhad, appointing them sole distributor of Family Takaful products and services.

We remain focused on effective balance sheet management in a rising rate environment and witnessed successful (6%) growth in non-profit bearing deposits, which increased our market share to represent over 25% and represents 94% of our total deposits. As a result, the Bank's net profit margin improved by 26 basis points in 2018 to 4.34%. During 2018, a Corporate Sukuk proposition was developed and the Bank participated in a high profile Sukuk issuance in the Kingdom and in several large syndicated transactions.

Become employer of choice →

For our employees, we must continue being the employer of choice – providing them with the career development opportunities they need to excel. It is only when they are truly engaged that our employees are able to anticipate and meet the banking needs of our customers and empowered to act in our customers' best interest.

During the year, we provided 65,000 hours of training and development. With the aim of strengthening diversity and increasing the number of female employees, the Bank also launched the first dedicated female graduate development programme during the year. In 2018, the number of female employees grew by 54% from 2015, representing 13.5% of the Bank's total employee base. Contributing towards Vision 2030, the Bank also increased its Saudisation ratio to 96% during the year.

We also sought to provide our employees with every opportunity to excel at what they do. For instance, on its journey of transformation, our HR function embraced innovation. We launched "SAHL", a new generation HR Services mobile application that is integrated with HR systems. SAHL provides employees with greater flexibility in utilising and requesting HR services on their mobiles.

Giving back to the communities within which we operate, has always been a part of our ethos and this year was no different. Nearly 3,000 of our people banded together, contributing over 14,000 hours on 75 social responsibility programmes in 22 cities. By 2020, our goal is to be able to report 50,000 cumulative hours of employee volunteering.

Customer focus →

With our people and digital systems increasingly geared towards providing a superior customer experience, the Bank is on a clear trajectory towards meeting its customer advocacy goals. We monitor our Net Promotor Score (NPS) very closely focusing on whether a customer would recommend the Bank to others. Among banks in the Kingdom, our NPS improved from 14% in 2015 to 42% in 2018. We now rank second, up from seventh position in 2015 out of a total of 12 banks in Saudi Arabia. We also lead in social media, ranking first on Twitter, YouTube and Instagram.

We are establishing an innovation centre in our new facility and will be expanding the level of customer input in both the design and prioritisation of new features and products. The feedback and suggestions from customers have enhanced our ability to increase conversion to digital channels and functionality, continuing to enhance customer experience further.

We delivered 11 new products during 2018 and have a full pipeline in place for 2019 and beyond.

Digital leadership →

In today's always-connected, always switched-on world, to meet the needs of our customers, we must compete with the latest technological innovations and market disruptions introduced by both start-ups and the biggest brands in the consumer and technology space. While this is no easy challenge, we have already begun focusing on some of the latest innovations in the market. Blockchain is one such innovation. The Bank has partnered with RippleNet, a global payments network that makes it easier for customers to connect and transact across a network of over 200 banks and payment providers worldwide.

To further meet customer needs, during the year, we harnessed technological innovations such as fingerprint identification technology and electronic signatures to make banking safer and more convenient for our customers.

As part of the ongoing digital transformation journey, we also focused on mobile and internet banking enhancements, further expanding our digital footprint. At year's end, 56% of customer transactions were being performed digitally. In addition, the number of active retail users of the Bank's "Mubashar" online banking platform for Retail customers grew strongly by 61% during 2018 to 3.6 Mn., while active Corporate users grew by 12.5% to almost 40,000. In terms of point of sale, we captured 18.9% of the value of the point of sale in the Kingdom, up from 16.3% in 2017. We deployed 250 self-service kiosks and plan to add 200 more in 2019. In 2018, 25% of transactions were made on a mobile or desktop. We will continue to forge new partnerships with Fintech companies in various parts of our business, including payments, and expanded use of robotics in our operations.

Execution excellence →

Al-Rajhi Bank is committed to ensuring the highest standards of compliance across all its activities and functions. With the overarching goal of maintaining a "World-Class" Compliance Program, the Bank continues to invest in "State-of-the-Art" compliance Systems, technology enabled processes and people. The Bank successfully transformed its Anti-Money Laundering (AML), Counter-terrorist Financing (CTF) and Sanctions frameworks; and has achieved an established state of maturity.

While continuing to improve the Bank's compliance standards and procedures, we focused on protecting the interests of our customers and meeting the increasingly rigorous demands of local and international regulators. To ensure that we abide with all the regulatory requirements and new developments during the year, the Bank updated its Governance Manual, as well as all approved policies and procedures for its businesses across the Kingdom and at our branches abroad.

We will continue to seek process improvements, such as digital solutions for retail credit approvals, sanction screening and other operational processes. In the near future we will roll out these initiatives to other lines of business in the Bank so that efficiency and effectiveness can be further improved across business lines and functions. We are one of the largest users of robotics in the Middle East, with 253 bots processing around up to 22,000 transactions per day, improving turnaround time. We also completed our new head office and data centre during the year.

Acknowledgements →

I extend my sincere appreciation to the Chairman and the Board for their support and guidance, the Bank's customers and investors for their continued loyalty and patronage, and our employees for their commitment and hard work.

The quest to succeed has always been strong within Al Rajhi Bank. While this spirit has stood the Bank in good stead over the past six decades, I have no doubt that our leadership team, our people and our clear ABCDE strategy outlined in the Report, will continue to position the Bank for long-term success.

Stefano Paolo Bertamini

Chief Executive Officer


Largest Islamic Bank worldwide by assets and market capitalisation

Board of Directors

Abdullah Bin Sulaiman Al Rajhi

Committees membership

Executive Committee

Current positions

- Chairman of the Board and Chairman of Executive Committee – Al Rajhi Bank
- Chairman of the Board – Al Rajhi Company for Cooperative Insurance
- Chairman of the Board – Farabi Petrochemicals Company
- Chairman of the Board – Al Rajhi Holding Group
- Chairman of the Board – Al Rajhi Capital Company
- Chairman of the Board – Fursan Travel & Tourism Company

Previous positions

At Al Rajhi Bank since 1979:

- Deputy General Manager of Financial Affairs
- Deputy General Manager of Investment and Foreign Relations
- Senior Deputy General Manager
- General Manager
- Chief Executive Officer
- Managing Director/Chief Executive Officer
- Board Member/Executive Committee Member
- Vice Chairman of the Board and Executive Committee Member

Qualifications

- Bachelor of Business Administration – King Abdulaziz University – 1979

Experience

Contributed to the conversion of Al Rajhi Exchange and Trade Company into a public joint stock company and held many leading positions in ARB for more than 35 years until his current position as the Chairman of the Board of Directors.

Alaa bin Shakib Al Jabri

Committees membership

Executive Committee, Board Risk Management Committee (BRMC), Nominations and Compensations Committee

Current positions

- Vice Chairman, Board Member, Executive Committee Member and Member of BRMC and Chairman of Nominations and Compensations Committee – Al Rajhi Bank
- Board Member – Construction Products Holding Company
- Board Member – Rolaco Group
- Board Member and Chief Executive Officer – Medical and Pharmaceutical Services Company

Previous positions

- Board Member – SIMAH
- Board Member – Higher Education Fund
- Board Member – Saudi Travellers Cheques Company
- Board Member – Arab International Bank – Tunisia
- Head of Risk Group – SABB
- General Manager of Western Region – SABB
- General Manager of Gulf International Bank
- Director of International Business – National Commercial Bank
- Deputy CEO – Gulf International Bank
- Corporate Banking Manager – Saudi Investment Bank

Qualifications

- Bachelor of BA – American University in Beirut
- Master of BA – Enseed, France

Experience

Having professional experience of more than 30 years, in the banking and financial fields, during which he held many leading positions in many local and international banks.

Salah bin Ali Abalkhail

Committees membership

Executive Committee, Governance Committee

Current positions

- Board Member, Executive Committee Member and Chairman of Governance Committee – Al Rajhi Bank
- Board Member – Al Rajhi Capital Company
- Partner and Chairman of the Board – National Veterinary Company
- Chairman and Office Owner – Salah Abalkhail Consulting Engineers
- Chairman of the Board – Salah Abalkhail & Co. Information Technology

Previous positions

At Norconsult Telematics Company since 1972:

- Project Engineer Assistant
- Project Engineer
- Project Manager
- Associate Consultant for the Company's projects
- Member of Engineering Committee – Ministry of Commerce

Qualifications

- Bachelor of Electrical Engineering – University of Arizona – 1972

Experience

Working in the field of advisory and investment for more than 40 years. He assumed the position of Board Member of Al Rajhi Bank, since the first tenure, and served as a member on many Board committees.

Board of Directors

Abdulaziz bin Khaled Al Ghefaily

Committees membership

Executive Committee, Nominations and Compensations Committee

Current positions

- Board Member – Executive Committee Member – Member of Nominations and Compensations Committee – Al Rajhi Bank
- Board Member – Al Rajhi Capital Company
- Board Member – Savola Group
- Board Member – Panda Retail Company

Previous positions

- Worked from 1981 to 2016 at General Organization for Social Insurance "GOSI"
- Board Member – Industrialization & Energy Services Company
- Board Member – Riyadh Hotels and Entertainment Co.
- Board Member – Saudi Industries Development Company
- Board Member – Tabuk Agriculture Development Company (TADCO)
- Board Member – National Medical Care Company
- Board Member – Herfy Food Services

Qualifications

- Bachelor of Economics – King Saud University
- Master's Degree in Economics from Western Illinois University – USA – 1990

Experience

Working in the field of financial investment for more than 25 years.

Bader Bin Mohammed Al Rajhi

Current positions

- Board Member – Al Rajhi Bank.
- Managing Director and Vice Chairman – Mohammed Abdulaziz Al Rajhi & Sons Investment Company (MARS)
- Chairman of Rajhi Steel Industries Co. Ltd. (Rajhi Steel)
- Chairman of the Board – Global Beverage Company
- Chairman of the Board – Al-Jazirah Home Appliance Co. Ltd.
- Chairman of the Board – Falcon Plastic Products Company
- Chairman of the Board – Manafe Investment Company

Previous positions

- Held several leading positions in areas of management, industry and real estate investment. He has served as a member of Boards of Directors of joint-stock companies.

Qualifications

- High School

Experience

Having experience of 30 years, Mr Bader has held several leading positions in areas of management, industry and real estate investment and served as a member of Boards of Directors of many joint-stock companies.

Khaled bin Abdulrahman Al Qwaiz

Committees membership

Nominations and Compensations Committee, Board Risk Management Committee (BRMC)

Current positions

- Board Member – Member of Nominations and Compensations Committee – Chairman of BRMC – Al Rajhi Bank
- Board Member, Audit Committee Member and Chairman of the Nominations and Compensations Committee – Swicorp Company
- Chairman of the Board, Chairman of the Executive Committee and member of Nomination Committee – Riyadh Cables Group Company
- Board Member – EMCOR Facilities Services
- Board Member – Unique Solutions for Chemical Industries (USIC)

Previous positions

- Managing Director – ACWA Holding Company
- Chief Executive Officer – Astra Industrial Group
- General Manager – Corporate Banking Group in the Central Region – SAMBA Group
- General Manager – Credit Group – Arab National Bank
- Manager of Financial and Administrative Affairs Sector – National Cooperative Insurance Company
- Head of Loan Team – Saudi Industrial Development Fund
- Board and Executive Committee Member – ACWA Holding Company
- Board Member and Chairman of Nominations and Compensations Committee – Saudi Tabreed Company

Qualifications

- Bachelor of Urban Planning – University of Washington – USA

Experience

Having more than 30 years of experience in the banking, financial, and industrial field, during which he held many leading positions in many local banks, in the field of retail, wholesale, risk and insurance.

Ibrahim bin Fahad Al Ghofaily

Committees membership

Governance Committee

Current positions

- Board Member and Member of Governance Committee – Al Rajhi Bank
- Board Member – Jiwar Real Estate Management, Marketing and Development Company
- Head of Arriyada Financial Consulting Center

Previous positions

- Board Member – Alinma Bank
- Deputy General Manager of Banking and Development – Al Rajhi Bank
- Associate Professor at Faculty of Economics, King Abdulaziz University
- Vice Dean of Faculty of Economics, King Abdulaziz University
- Assistant Professor, Faculty of Economics, King Abdulaziz University
- Member of the Graduate Studies Committee, Faculty of Economics, King Abdulaziz University
- Financial Advisor of King Abdulaziz Endowment Project in Makkah

Qualifications

- Bachelor of Public Administration – King Abdulaziz University
- Master of Public Administration – California State University – 1978
- PhD in Philosophy – Florida State University – 1981

Experience

Having practised academic work for 10 years and with 10 years of experience in the Islamic Banking Sector, he established Arriyada Financial Consulting Center, in 2002, and performed several studies and Islamic Financing Structuring for projects (the most prominent being Abraj AlBait in Makkah). He participated and presided over various Islamic financing conferences within and beyond the Kingdom's borders.

Ameen bin Fahad Al Shiddi

Committees membership

Audit and Compliance Committee

Current positions

- Board Member and Chairman of Audit and Compliance Committee – Al Rajhi Bank
- Board Member – VIVA – Kuwait Telecom Company
- Board Member – Deutsche Gulf Finance.
- Board Member – Oger Telecom Company
- CFO - Saudi Telecom Company (STC)

Previous positions

- Board Member – Solutions Company
- Board Member – Advanced Sale Limited Company
- Board Member – Arab Submarine Cables Company
- Board Member – Aqalat Company
- Board Member – Viva Bahrain Company

Qualifications

- Bachelor of Accounting, King Saud University
- Master's Degree in Accounting, University of Missouri, USA
- CMA, SOCPA, CPA

Experience

Having more than 25 years of experience in the fields of financial, investment, consulting and supervisory, he has served as a Board Member of many local and international companies in various sectors and has membership in several professional, commercial, and consulting committees.

Hamza bin Othman Khushaim

Committees membership

Executive Committee, Board Risk Management Committee (BRMC)

Current positions

- Board Member – Member of Executive Committee and BRMC – Al Rajhi Bank
- Director of International Investment Department – Hassana Investment Company
- Member of the Saudi Investor Association
- Certified member of the Association of Financial Analysts – USA

Previous positions

- Hedge Fund Portfolio Manager – KAUST Endowment
- Hedge Fund Manager Portfolio – Investment Management – Treasury – Saudi Aramco Co.
- Financial Analyst – Investment Management – Treasury – Saudi Aramco Co.
- Board Member and Member of Remuneration and Compensations Committee – Dallah Healthcare Holding Company

Qualifications

- Bachelor of Finance, Michigan State University
- Master's Degree in Business Administration
- University of Michigan in Ann Arbor
- CFA

Experience

Having 12 years of experience in investment.

Raed bin Abdullah Al Tamimi

Committees membership

Governance Committee, Nominations and Compensations Committee

Current positions

- Board Member – Member of Governance Committee – Member of Nominations and Compensations Committee – Al Rajhi Bank
- Board Member - Cooperative Insurance Company
- Board Member – Najm for Insurance Services

Previous positions

At Cooperative Insurance Company, since 1996:

- Chief Executive Officer
- Senior Deputy CEO – Technical Affairs
- Deputy CEO – Medical Insurance and Takaful Insurance
- General Manager of Human Resources and Administration Affairs
- Board Member – Waseel Electronic Information Transfer

Qualifications

- Bachelor of Medical Science, University of Wales, UK
- Has many training courses from leading international institutes such as Enseed, IMD, LBS, etc.

Experience

Having over 20 years of management, with his last leading position being CEO of "Tawuniya" (the Largest Insurance Company in MENA area), he currently serves as Board Member and Board Committee Member in many listed and unlisted companies.

Abdullatif bin Ali Al Seif

Committees membership

Audit and Compliance Committee

Current positions

- Board Member – Member of Audit and Compliance Committee – Al Rajhi Bank
- Board Member – Arabian Cement
- CEO – Alra'idah Investment Company
- Board Member – Al Ra'idah Investment Company

Previous positions

- Deputy Head and Head of Investment – King Abdullah Foundation
- Director of Portfolio Management – Masik
- Head of Portfolio Management, Investment Management Division – Saudi Aramco Co.
- Portfolio Manager – KAUST Investment Management Company
- Financial Analyst – Saudi Aramco Co.
- Board Member – HSBC Saudi Arabia
- Executive Director – Vision Combined Limited Company

Qualifications

- Bachelor of Business Administration – Boston University
- Master's Degree in Business Administration – Boston University
- Master's of Economics – Boston University
- CPA, CFA

Experience

Having more than 16 years of experience in investment, he serves on several Boards and Committees in many companies.

Executive Management

Stefano Paolo Bertamini

Current positions
Chief Executive Officer

Previous positions
Chief Executive officer
(Standard Chartered Bank)

Qualifications
Master's Degree – Finance and International Banking Business

Experience
32 years

Waleed Abdullah Almogbel

Current positions
Deputy Chief Executive Officer

Previous positions
Chief Operating Officer (ARB)

Qualifications
PhD – Accounting and Auditing

Experience
21 years

Abdullah Ali Alkhalifa

Current positions
Chief Financial Officer

Previous positions
Chief Financial Officer (ANB)

Qualifications
Master's Degree – Accounting

Experience
28 years

Christopher Macleen

Current positions
Chief Risk Officer

Previous positions
Chief Risk Officer (West Bank)

Qualifications
Bachelor's Degree – Accounting

Experience
35 years

Khalid Fahad Alhozaim

Current positions
Chief Human Resources Officer

Previous positions
General Manager – Human Resources (Acting) (ARB)

Qualifications
Bachelor's Degree – Computer Engineering

Experience
19 years

Omar Mohammad Almudarra

Current positions
Chief Governance and Legal Officer

Previous positions
General Manager – Head of Legal – SAMBA Financial Group

Qualifications
Master's Degree – Law

Experience
19 years

Abdulaziz M Al-Shushan

Current positions
Chief Internal Audit

Previous positions
Executive Director (Head of Internal Audit) ACWA Power

Qualifications
Executive Master's Degree – Business Administration

Experience
19 years

Saleh Abdullah Allheidan

Current positions
General Manager – Sharia

Previous positions
Associate Professor in the High institute of Judiciary – Al Imam Mohammed bin Saud Islamic University

Qualifications
PhD – in Comparative Fiqh (Islamic Law)

Experience
33 years

Executive Management

Saleh Abdullah Alzumaie

Current positions
General Manager –
Retail Banking Group

Previous positions
GM RBG (Acting) (ARB)

Qualifications
Bachelor's Degree –
English Language

Experience
28 years

Majed Abdulrahman Alqwaiz

Current positions
General Manager –
Corporate Banking Group

Previous positions
GM CBS (SABB)

Qualifications
Bachelor's Degree –
Finance Accounting

Experience
24 years

Abdulrahman Abdullah Alfadda

Current positions
General Manager –
Treasury and Financial Institutions

Previous positions
GM Treasury and Investment (SAIB)

Qualifications
Bachelor's Degree –
Electrical Engineering

Experience
22 years

Abdullah Sulaiman Alnami

Current positions
Chief Compliance Officer

Previous positions
Deputy CORO (Riyad Bank)

Qualifications
Master's Degree –
Management and Business

Experience
24 years

Number one distribution network in the Middle East in terms of branches, POS, ATMs and Remittance Centres

Strategy

Strategic Direction

The Bank's 2020 strategy, first formulated in 2015, was designed to build new capabilities and ensure sustainable growth amidst a rapidly changing environment. It also contributes towards the Kingdom's Vision 2030 objectives of creating a thriving financial sector.

Strategy overview

Al Rajhi Bank's 2020 strategy was first formulated in 2015, following the appointment of the current management team. It aims to build new capabilities and ensure sustainable growth amidst a rapidly changing environment, while leveraging KSA's Vision 2030 objectives of creating a thriving financial sector.

The banking environment in Saudi Arabia is in a state of rapid evolution: fiscal and monetary policy dynamics, increased regulatory activity, and most importantly, rapidly evolving technological innovations, increasing digitisation and heightened customer expectations.

In response to this dynamic environment, Al Rajhi Bank's strategy has a relentless focus on business enabling and cost-efficient technological enhancements, as well as on the sustainability of our operations. The Bank is planning for the digital future now, and building the kind of bank that tomorrow's digital customers will want to engage with.

A key enabler for Saudi Arabia's Vision 2030 is the creation of a thriving financial sector that underpins and nurtures private sector growth, supports the formation of an advanced capital market, and promotes financial responsibility among its residents. Delivering these ambitions is a central objective of the strategy of Al Rajhi Bank.

This macro ambition enables the delivery of the 2020 strategy. The strategy is geared to expand the product and customer portfolio, diversify sources of funding, expand delivery channels, enhance customer and employee engagement, migrate customers to online channels and streamline internal processes.

The Bank aims to achieve these objectives through the execution of its "ABCDE – Back to Basics" strategic plan, which is composed of five key pillars: accelerate growth to outperform our competition, become the employer of choice in the industry, enhance customer focus, achieve digital leadership, and improve execution excellence:

A Accelerate growth	B Become employer of choice	C Customer focus	D Digital leadership	E Execution excellence
Grow mortgage, private sector, affluent, ladies and Tahweel	Engaged workforce	Update value propositions	Smartly expand channels and formats	World-class compliance
Enhance SME and corporate capabilities	Expand development and training programmes	Empower frontline	Digitise customer journeys	Enhance IT infrastructure
Enhance International presence	Strengthen diversity	Align organisation to customer advocacy	Migrate customers to self-service channels	Centralise and automate operations
Improve yields	Enhance employee value proposition	Install and embed NPS across the Bank	Innovate in payments	Strengthen risk infrastructure
Exceed industry	**Higher engagement**	**Most recommended**	**Best in class**	**Deliver**

2018 strategy review → Accelerate growth

Several key initiatives are being executed to accelerate growth ahead of the industry:

- Grow the mortgage portfolio
- Increase exposure to the private sector
- Expand the customer base of female customers,
- Enhance SME and corporate capabilities
- Selectively enhance the international footprint
- Improve yields and enhance cross sell

In 2018, the Bank registered meaningful market share improvements across key product lines through the introduction of new innovative products and the selective expansion of its distribution network.

The mortgage portfolio grew by 27.4% and our market share grew to 27.9% at end of 2018, compared to 20.6% at the end of 2015. This was partially driven by the introduction of new products such as Self Construction, a financing solution targeting landowners willing to construct or owners of incomplete properties looking to complete construction Off Plan, is another financing solution to fund customers as they make payments towards the construction of their residential property currently owned by a real estate company which will further accelerate growth in 2019 and beyond.

Al Rajhi Bank has the largest distribution network in Saudi Arabia with 551 branches, over 5,000 ATMs, approximately 84 thousand POS terminals and 236 remittance centres. The Bank also operates 18 branches in Malaysia, 10 in Jordan and two in Kuwait. Over the past three years, the Bank also grew its female customers by 30% with the introduction of five additional dedicated ladies sections and branches bringing the total dedicated sections and branches for ladies to 157, further cementing the Bank's distribution network as the largest in the Kingdom.

The Bank also expanded its corporate and SME offering, including Islamic FX forwards, Supply Chain Financing (SCF), facilities that are based on receivables purchase agreement on behalf of the Bank's corporate clients' suppliers; and POS Financing, offered to SME customers through an active point of sale terminal to cover their short-term and long-term needs.

Sophisticated cash and liquidity management is crucial for the modern corporate, and Al Rajhi launched a corporate liquidity management solution in 2018, providing centralised and automated cash management for corporate customers. Additionally, 2018 saw the successful launch of fully-fledged supply chain finance solutions (SCF) for its corporate customers. Al Rajhi Bank is the first bank in the Kingdom to offer a comprehensive SCF programme with a wide range of solutions backed by a strong technological platform available to the entire value chain of customers, both upstream and downstream.

The Bank's focus on the SME sector remained a key initiative for the year. The Bank merged its SME business with its retail banking business, leveraging its retail branch network and enhancing customer service.

Internationally, 2018 was a year of advancement: the Bank opened three new branches in Jordan and one new branch in Kuwait. In Malaysia performance improved substantially.

Finally, the Bank has continued to improve yields during 2018 through effective balance sheet management in a rising rate environment and successful growth of 6% in non-profit bearing deposits, which now comprise 93.6% of total deposits. As a result, the Bank's net profit margin improved by 26 basis points in 2018 to 4.36%.

Become employer of choice

The Bank's commitment to remaining the employer of choice in the industry is a key pillar of its strategy, and 2018 saw continued efforts focused on promoting an engaged workforce, expanding development and training programmes, strengthening diversity, and enhancing the employee value proposition.

In November 2018, the Bank moved both its main office and operations centre to the new state of the art building in Riyadh.

In 2018, the Bank launched the Al Rajhi Bank Academy, which includes a School of Banking providing a series of domain and role specific certifications as well as running six graduate development programmes, for students in their final stages of graduation. The Academy also launched the School of Leadership. In total, more than 65,000 training days were delivered in 2018.

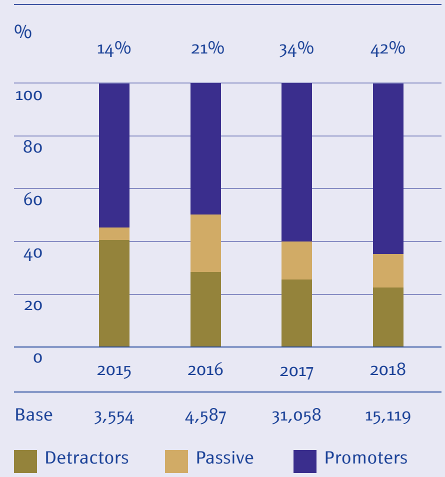
With the aim to strengthen diversity and grow the number of female employees, the Bank launched the first dedicated female graduate development programme and introduced a nursery allowance programme for female employees during 2018. The percentage of female employees grew by 6.2% in 2018, and today women represent approximately 14% of the total Bank's employee workforce.

Customer focus

With the ambition to be recognised as the most recommended bank in Saudi Arabia, strong focus is placed on customer advocacy while embedding improvement in Net Promoter Score (NPS) into our balanced scorecards. In 2018, the Bank became the number two bank in the country based on NPS versus the number seven bank position in 2015.

Through the use of digital advancements and ongoing agent training and development, the Bank has further improved customer experiences to better address customer needs. During 2018, the Bank registered 10% growth in its NPS score, a biannual external study is commissioned by the Bank to measure progress relative to competition. We measure how satisfied and likely a customer is to promote the Bank to other friends and colleagues.

Net Promoter Score (NPS)



Source: Online top down NPS study commissioned by Al Rajhi Bank data collection period end September 2018.

Digital Leadership

The banking industry is transforming into a digital industry, and Al Rajhi is at the forefront of this change. The Bank is committed to being the pioneer in digital banking by capitalising on the latest technologies to provide customers with the highest quality services. In this regard, the Bank remains focused on smartly expanding channels, digitising customer journeys, migrating customers to self-service channels, and exploring innovations in payment methods.

As part of this ongoing digital transformation journey, the Bank continues to accelerate its focus on mobile banking enhancements and customer journeys to both further grow its digital footprint and enhance the customer experience. Today 56% of customer transactions are performed digitally. In addition, the number of active retail users of the Bank's "Al Mubashar" online platform grew by 64% during 2018 to 3.6 Mn., while active corporate users grew by 12.8% to almost 40,000. The integration of WhatsApp and Apple Pay with the Bank's mobile application is one of the many innovations in 2018 that have enhanced customer experience and ease of use.

Other digital initiatives during 2018 included: new self-service kiosks were rolled-out and installed across remittance centres, a trial of artificial intelligence and voice recognition technologies was implemented across customer call centres. Robotics was further expanded to improve efficiency of back office transactions, secure cross-border money transfers using Ripple Blockchain technology were conducted with other financial institutions. We will continue to explore innovative opportunities and partnerships in the fintech industry in 2019 and beyond.

Execution Excellence

Execution excellence is a key enabler of the Bank, helping it deliver a strong performance to meet its operational objectives. It also helps achieve world-class compliance, enhanced IT infrastructure, automated operations and strengthened risk infrastructure.

We are one of the largest users of robotics in the Middle East. We have 253 bots processing around 22,000 transactions daily. This has significantly improved our processing leading to a much faster turnaround time and a better customer journey.

During 2018, the Bank finalised the construction of its Tier 4 data centre, granting the Bank the recognition of being the first bank in the GCC to have a Tier 4 certification. Full migration to the new data centre is scheduled for 2019 which will provide the Bank with world-class modern infrastructure ensuring resilient risk, security and compliance controls.

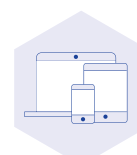
2019 Strategy →

The Bank will continue to implement its ABCDE strategy during 2019 which is based on adopting artificial intelligence solutions, automation, block chain, cloud computing, big data analysis and internet of things similar to the past three years. It is focused on continuing to deliver superior returns, enhanced customer and employee engagement while accelerating digital execution.

Key strategic focus areas for 2019 include:

Continued growth in mortgage and current accounts

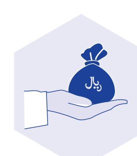
Accelerate growth in revolving cards and E-Commerce



Further enhance digital offerings and customer journeys

Continuing to partner with Fintech companies and expand use of Agile working teams

Enhance cross-sell and fee income streams



Continued investment in the capabilities of its people and infrastructure

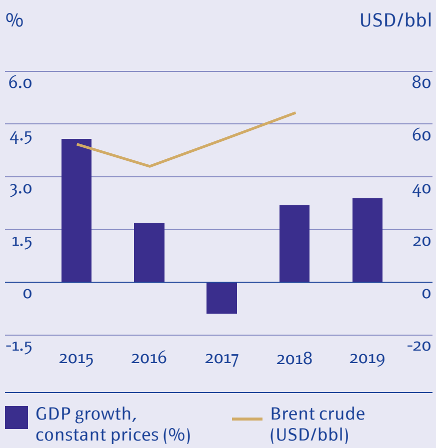
Operating Environment

A true evaluation of the Bank's performance and value delivery must, of course, take into account the sociopolitical and economic trends within which it operates. This section outlines the main forces that shaped the local, regional, and global landscape as well as the banking sector in general.

After several years of constrained economic activity, 2018 marked a return to growth for Saudi Arabia, driven by a steadily rising oil price for the first three quarters.

The crude price dynamic supported a host of positive economic indicators: GDP grew by 2.2%, up from -0.8% in 2017. Broad money supply (M3) expanded at 2.8%, up from 0.2% in 2017. Bank claims on the private sector grew 3.0% year-on-year, recovering from the prior year contraction of 0.8% and overall credit grew by 2.8%, up from -1.0% in 2017.

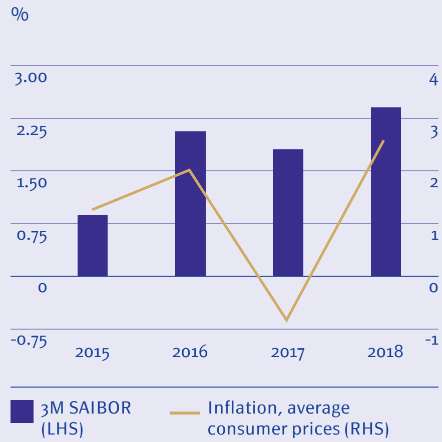
KSA growth vs oil prices



The crude price dynamic supported a host of positive economic indicators.

And against this backdrop, policy rate increases in the US were mirrored in the Kingdom, leading average 3M SAIBOR rate to increase by 60 bps to 2.41%.

Interest rates vs inflation



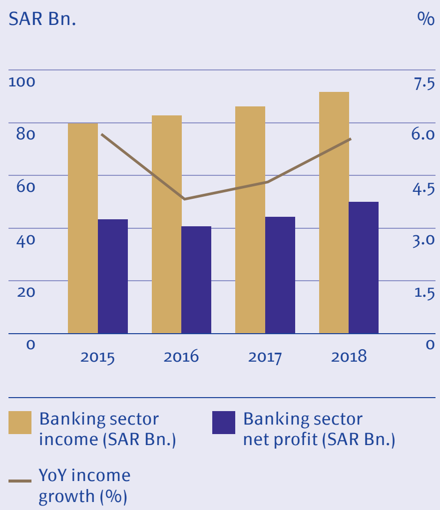
But a supportive oil price was not the only driver of economic growth: the reforms initiated under the Vision 2030 strategy saw macro growth mirrored in the real economy: Real estate lending, retail credit and cards were all particularly strong.

Also, real estate finance has been doubled comparing to the past years from SAR 3,993 Mn. to SAR 8,092 Mn. and auto finance grew 79% annually compared to -1% in 2017. In addition, deposits grew 2.6% comparing to 0.1% in 2017.

In these conditions, the banking industry benefited overall, with the domestic banking sector posting net profits of SAR 48 Bn., up 10% from 2017.

Comprising 12 listed banks and other non-listed banks, the Kingdom's banking sector witness marginal growth in deposits, with demand deposits accounting for 61.8% while time and savings deposits accounted for 27.7%. Individuals held 76.4% of total deposits while government entities accounted for 21.6%. Together, National Commercial Bank, Al Rajhi Bank, Samba Bank, and Riyadh Bank – the Kingdom's four largest banks – account for 55.3% of total assets.

Banking sector income

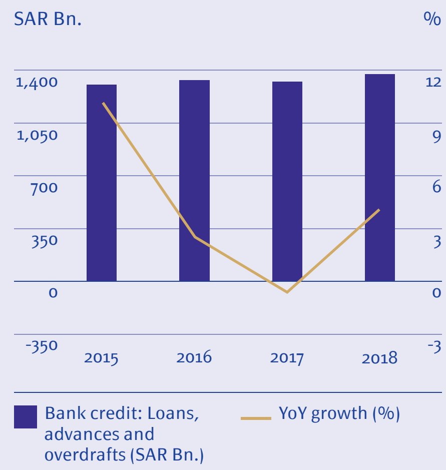


Banking industry benefited overall, with the domestic banking sector posting net profits of SAR 48 Bn., up 10% from 2017.

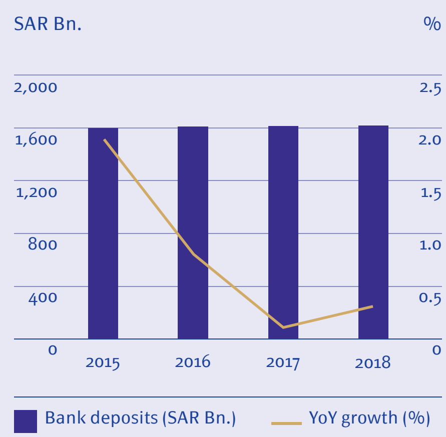
Even at this early stage, just two years into the execution of Vision 2030, 2018 already seems like a milestone year.

Al Rajhi Bank's own credit dynamics during the year reflected this new mood of growth in the Kingdom. As a predominantly retail oriented bank (72% of the business), Al Rajhi thrives when the Kingdom grows, and 2018 was proof of this. We experienced strong growth in mortgages (+27%) achieving a record market share of 27.9%. Our credit cards business also witnessed strong growth with 200,000 credit cards now in service, up from 50,000 last year.

Banking sector loan growth

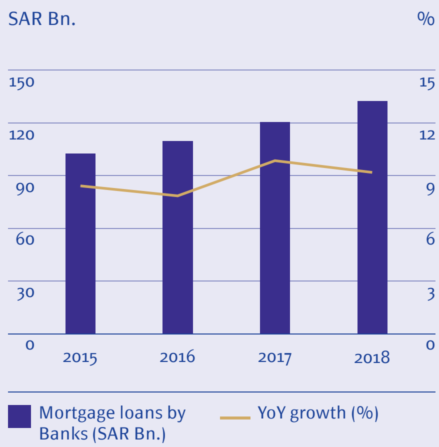


Banking sector deposits



Operating Environment

Banking sector mortgage loans



We experienced strong growth in mortgages (+27%) achieving a record market share of 26.9%.

And this growth was not delivered at a cost to margin: Partially driven by rate hikes, but also supported by strong management discipline, Al Rajhi Bank margins expanded by 26 bps during the year, to 4.34%.

The banking sector adoption of IFRS 9 accounting standard fundamentally changes the way banks account for provisions associated with financing activities. While the settlement reached between all banks and the General Authority for Zakat and Tax (GZAT), which will harmonise the treatment of Zakat for all banks in future, added to a sense of confidence for the sector.

In this context, 2018 was a particularly strong year for Al Rajhi Bank, delivering sector-leading achievements such as growth in operating profits, growth in net income, return on equity and return on assets.

What is particularly gratifying from a management point of view, though, was that we did not allow the positive macro-environment to lead to complacency. On the contrary, our ongoing ABCDE strategy and focus on our employees and customers mean that the Bank has never felt more dynamic.

We delivered 65,000 hours of training to our staff in 2018, double the 2015 figure. We continued to improve our customer service, further accelerated digitisation and product development. We launched 12 new products in 2018, including securitisation, supply chain financing, FX forwards, and point of sale financing for SMEs.

Our digital leadership is now well established in the sector due to significant and early adoption of robotic tools. We have now implemented 253 bots processing over 22,000 transactions daily. We have focused on improving our turnaround time and have received Tier 4 certification for our data centre – the first bank in the Middle East to achieve this.

In summary, all banks in the Kingdom benefited from macro tailwinds in 2018. Al Rajhi has not been complacent, and has rigorously pursued its journey to be *The Blue-chip Islamic Bank*, admired for its innovative service, people, technology and Sharia compliant products, both locally and internationally with more vigour than ever.

Our Value Creation Model

As portrayed in the Bank's business model, its inputs (on-balance sheet and off-balance sheet forms of capital), activities, outputs, outcomes and impact are set against the trends of the operating environment; the Bank's vision, mission, and values; and its strategy. The whole is underpinned by strong governance practices as described in the Management Discussion and Analysis section, under Governance, Strategy, and Performance on pages 26 to 111.

The figure illustrates how the Bank's inputs feed its activities. These activities can be described as enhancements to capitals (such as improved customer products and services, better quality employee development plans, or innovative technological enhancements) which delivered value during the year under review. Such activities in turn generate outputs. These outputs can be described as the value created both for the Bank and its stakeholders in the short term. The outcomes create value in the medium term, while the impact highlights value created in the long term.

Vision, Mission and Values

Operating Environment

Stakeholders and Materiality

Strategy

Inputs

Financial capital

Strong book value of the Bank reflecting profitability and asset quality

Institutional capital

Cutting edge knowledge-based intangibles and tangibles owned and controlled by the Bank

Investor capital

Loyal investor base nurtured and rewarded through sound governance and ethical business practices

Customer capital

Trust and loyalty earned by putting the customer at the heart of all we do

Business partner capital

A bedrock of market confidence and financial stability through exemplary stewardship

Employee capital

An innovative team of achievers driven by a passion to serve

Social and Environmental capital

A license to operate earned through our contribution towards financial inclusion aligned with Vision 2030

Activities

Accelerate growth

Improve portfolios in key customer segments

Employer of choice

Create a performance-driven culture where the customer comes first

Customer focus

Provide greater convenience and security in customer offering

Digital leadership

Expand digital channels and migrate customers to self-service banking

Execution excellence

Explore and execute measures to improve operations

Stewardship

Monitoring and Evaluation

Outputs	Outcomes
Grow mortgages, retail, SME and corporate banking	**Value delivered:** Sound financial intermediation **Value derived:** Profitability, shareholder loyalty and business portfolio growth
Empower frontline and embed NPS across the Bank	**Value delivered:** Professional development and a motivating work culture **Value derived:** A dedicated and empowered workforce
Improve customer touchpoints, products and services	**Value delivered:** Sharia compliant products and services via wide network **Value derived:** Strong brand value, customer patronage, and market leadership
Introduce new and improved digital banking options	**Value delivered:** Sustainable, convenient banking options **Valued derived:** Brand value and market leadership
Enhance IT infrastructure, centralise and automate operations, and strengthen risk infrastructure	**Value delivered:** Smoother systems that facilitate better customer service **Value derived:** Cost savings and improved stakeholder confidence

Impact

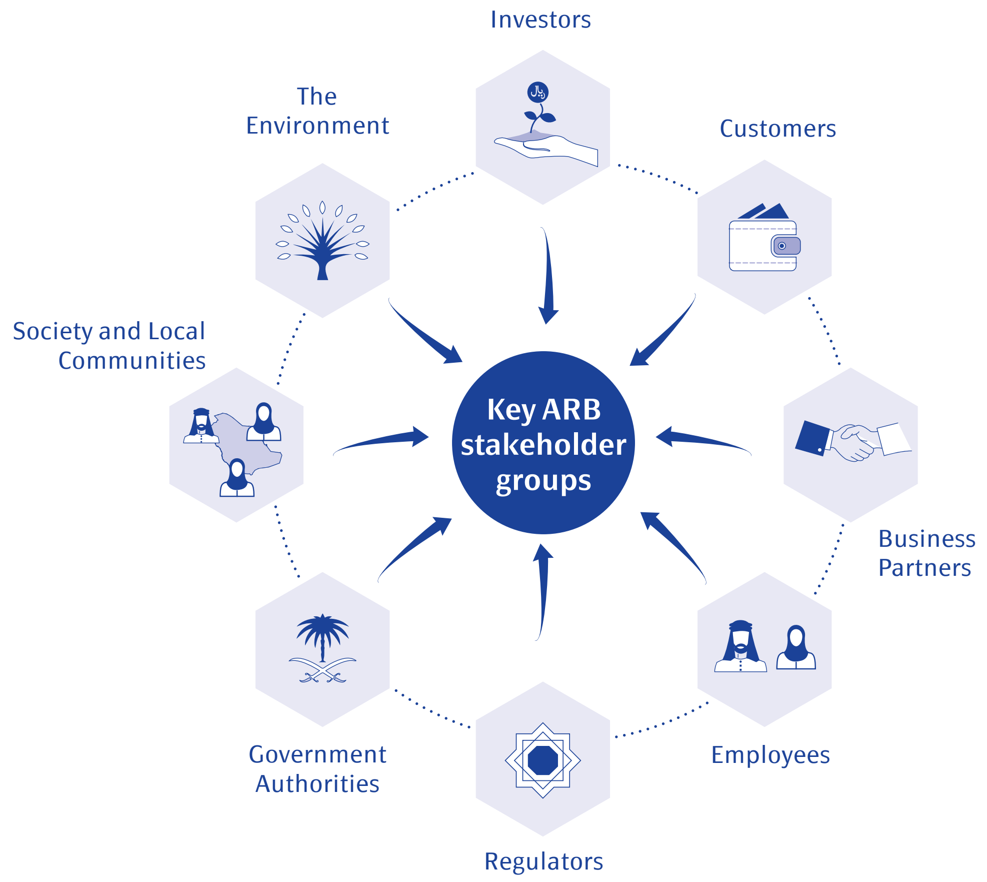
Move the Bank towards becoming the leading Digital Bank in the region.

Be an integral player in the development of a thriving financial sector and a key enabler of the Kingdom's Vision 2030 by offering services to support private sector growth.

Stakeholders and Materiality

We consider as stakeholders those individuals or entities who are materially impacted by the Bank's activities or those who have the ability to make an impact on the Bank by their actions, opinions, attitudes, or perceptions.

Key ARB stakeholder groups



Stakeholder engagement →

Given the significant impact that the perceptions and behaviour of our stakeholders can have on the Bank's ability to conduct its business and meet its strategic goals, and also the Bank's own capacity to impact its stakeholders, it is vital for us to identify and communicate effectively with them.

Stakeholders and Materiality

By connecting with our stakeholders we are able to understand their needs better and address any concerns they may have. We are also then able to balance the distribution of value created and better prepare ourselves for any challenges that the future may bring.

The Bank utilises the following methods of engagement for its key stakeholder groups.

	Principal means of engagement	Subjects of engagement
Investors	• General Assembly Meeting • Extraordinary General Meetings • Interim financial statements • Annual report • Investor presentations • Press releases • Announcements made on the Saudi Stock Exchange and the Bank's corporate website • Investor conferences	• Strategy • Financial statements of the Bank and the Group plans, prospects, and forecasts • Shareholder returns • Governance • Risk management
Customers	• Branches • Service centres • ATM network • Online banking • Corporate website • Print and electronic media • Social media • Customer satisfaction surveys • Customer visits • Net Promoter Score (NPS)	• Price • Ease of access • User-friendliness • Banking hours • Specialised needs
Employees	• Induction programmes • Development of key performance indicators (KPIs) • Individual career development plans • Meetings • Staff societies and volunteerism	• Performance standards • Career plans • Training and development • Corporate values • Corporate strategies and plans • Trends in banking • Saudisation • Remuneration and benefits • CSR programmes
Society and environment	• Education • Youth and employment • Microfinance for women • Programmes for SMEs • Assistance to needy and vulnerable	• Financial inclusion • Affordable financing for disadvantaged segments and community empowerment • Assistance for disadvantaged and vulnerable groups

Materiality

Material topics are those that significantly affect the Bank's ability to create value over the short, medium and long term, having a significant impact on the opinions, attitudes, and perceptions of stakeholders. Material topics are defined by their relevance and significance, where the latter is a function of the magnitude of their impact and the probability of occurrence. The materiality assessment is conducted in light of the Bank's value creation process, corporate planning exercise, emerging global and local trends, and feedback from its many stakeholder engagement mechanisms.

Risk Management

Operating in a highly competitive and dynamic environment, the Bank focused on managing a range of risks during the year under review.

Credit risk

The most common risk for the Bank and the Group is financial loss due to a counterparty failing to meet the terms of an obligation to a transaction. Key sources of credit risk include credit facilities provided to customers, cash and deposits held with other banks, and some off balance sheet financial instruments such as guarantees relating to purchase and sale of foreign currencies or letters of credit. Using quantitative and qualitative aspects we systematically evaluate a customer's creditworthiness. This helps us to maintain a robust loan portfolio. The Bank is also able to take remedial measures by conducting periodic loan reviews that are geared to detect any weaknesses in the quality of the portfolio.

Liquidity risk

When the Bank is unable to meet its financial liabilities when they fall due or replace withdrawn funds without incurring unacceptable losses, this is termed liquidity risk. Such a risk would invariably strike a serious blow to the Bank's reputation and its ability to do business going forward. Since the ability to accurately forecast cash flows and cash equivalents is crucial to the Bank's ability to manage such a risk, they are carried out on the basis of practice and limits set by the Group and historical deposit movement.

The Bank's liquidity is also affected by market disruptions and credit downgrades. For this reason, assets are managed judiciously with a conservative balance of cash, cash equivalents and other assets maintained at all times. To further mitigate this risk the Bank focuses on diversifying its sources of funding.

Market risk

Risks related to currency, profit rate and price are classed as market risk. They occur when the fair value or future cash flows of a financial instrument fluctuate due to changes in market prices. Profit rate products, foreign currency, and mutual fund products are all exposed to general and specific market movements. As a result, changes in the level of volatility of market rates or prices such as profit rates, foreign exchange rates, and quoted market prices, can impact the performance of the Bank.

Being Sharia compliant means that the Bank is immune from risks resulting from speculative operations such as hedging, options, forward contracts, and derivatives. The Group is not immune to market risks such as profit rate risk, foreign currency risk, price risk and operational risk. Please refer Note 27.3 to the Consolidated Financial Statements for a detailed discussion.

Operational risk

Operational risk scenarios are more or less idiosyncratic in nature and generally attributed to inadequate or failed internal systems and processes, human actions and/or external events.

During the year under review, the aggregated results of such stresses indicated manageable levels of risk while high risk levels were never breached. This demonstrates the Bank's overall resilience and the success of its integrated approach to the identification, measurement and monitoring of operational risk.

Concentration risk

If the Bank's area of business was limited to one location or its customers to a single type, it would be at greater risk from the slightest shocks to its operating environment. Instead, the Bank is geographically diversified and counts on the loyalty and patronage of a varied customer base which spans industries, countries, and wallet-size. Such diversity mitigates concentration risk by providing greater stability in the face of external impacts.

Risk management practices →

The role of the Board Risk Management Committee (BRMC) is to support the Board of Directors in their role of overseeing the Bank's performance in line with the Bank's risk appetite. The risk management function operates within the regulatory framework set out by the Saudi Arabian Monetary Authority (SAMA).

The Bank's Internal Capital Adequacy Assessment Process (ICAAP) covers the Bank's risk management framework, detailing its risk appetite, risk management approach, and primary risk controls. Reviewed by the BRMC and approved by the Board, the ICAAP is submitted to SAMA on an annual basis. Similarly, the BRMC reviews and provides recommendations on the Internal Liquidity Adequacy Assessment Plan (ILAAP). These are

The Bank must manage risks with prudence combined with pragmatism in order to remain profitable. To do so it has to accurately identify potential risks and the impact of such risks on the Bank's value creation process. This involves establishing risk thresholds which are derived from the Bank's risk appetite. The policies and procedures set up by the Bank help identify and analyse relevant risks, manage its capital effectively and provide shareholders with sustainable returns.

submitted to the Board and, upon approval, are submitted to SAMA annually.

Crucial to the Bank's management of risk across its operations is the role of the Credit and Risk Group headed by the Chief Risk Officer. Covering credit risk management, operational risk management and enterprise risk management, this team works within the risk frameworks and policies approved by the Board of Directors. The Group's reports to the Board of Directors and related committees span credit risks and portfolio asset quality, operational risks, liquidity risks, market risks, reputational risks, and technology and cyber security risks among others.

The BRMC also reviews the Credit and Provisioning Policy, Operational Risk Policies, Risk Appetite Statements, Market and Liquidity Risk Policies and Information Security Policy. Its recommendations are submitted for the Board's approval.

The Bank's liquidity risk is monitored by the Asset and Liability Committee (ALCO). Their remit includes day-to-day management of funds to ensure that funds are available when necessary to meet commitments; monitoring liquidity ratios against benchmarks; and managing the concentration and profile of debt maturities.

Market risks are regularly monitored by the Credit Risk Department with reports being sent to ALCO each month for assessment. ALCO ensures that risks taken are appropriate but initiates mitigating action if they are not within the Bank's risk appetite.

The diversity of the customer base fortifies and strengthens the Bank. Having a keen understanding of different customer requirements, we segmented this stakeholder group into three primary segments:

- Retail banking customers
- Micro customers and Small and Medium Size Enterprises (MSME)
- Corporate banking

This type of segmentation also allows us to align our value proposition in terms of products, services, and delivery channels to better cater to customer needs. Our retail customer-oriented business model provides a diverse risk profile that is supplemented by our robust corporate banking customer base. Our extensive branch network endears us to our loyal customer base, generating for us a high level of stable demand deposits, which in turn has a positive impact on the Bank's liquidity.

Supporting our long-term value creation plans, our risk management practices regulate the entire customer journey from onboarding to issuing finances and providing reliable and relevant products and services.

In line with global standards, the Bank implemented credit provisioning framework IFRS 9 and Internal Liquidity Adequacy Assessment Plan (ILAAP) during the year under review. It also established Risk Appetite Statements at business line level, foreign branch level and subsidiary level. In 2019, the Bank will focus on enhancing its credit delivery and management processes and further improving the robustness of its information security and disaster recovery infrastructure.

Credit rating

Rating agency	Long term	Short term
S&P	BBB+	A-2
Fitch	A-	F1
Moody's	A1	P-1
Capital Intelligence	A+	A1

Receiving positive credit ratings from international rating agencies over consecutive years has been favourable for the Bank's reputation. The year under review was no different (except for one notch downgrading of Fitch's rating from A to A-. Moody's and S&P maintained their ratings at A1 and BBB+ respectively).

Looking ahead

Expanding its core customer segments of retail, corporate, and SME in line with world-class risk management practices, regulatory standards, international standards, and best practices continues to be a core focus for the Bank.

Number one retail bank in the Middle East by retail deposits and income

Performance

Financial Review

Bank achieved improved performance during the fiscal year 2018, recording growth in most of the key performance indicators.

Income statement

Al Rajhi Bank reported net income of SAR 10,297 Mn. for the full year 2018, reflecting strong momentum in the delivery of the strategy, and resulting in improved financial metrics.

	FY 2018 SAR Mn.	FY 2017 SAR Mn.	YoY %
Net financing and investment income	13,253	12,029	+10.2
Fees and other income	4,067	3,875	+4.9
Total operating income	17,320	15,905	+8.9
Operating expenses	(5,492)	(5,237)	+4.9
Total impairment charge	(1,531)	(1,548)	-1.1
Net income for the period	10,297	9,121	+12.9
Earnings per share (SAR)	6.34	5.61	+13
Dividends per share (SAR)	4.25	4.00	+6
Return on equity (%)	19.8	17.2	+15
Return on assets (%)	2.9	2.7	+10
Net financing and investment margin (%)	4.34	4.08	+6
Cost to income ratio (%)	31.7	32.9	-4
Cost of risk (%)	0.63	0.66	-3

Operating income

Total operating income for 2018 reached SAR 17,320 Mn., 8.9% higher than in 2017, reflecting strength across the board in all our main businesses.

Net financing and investment income totalled SAR 13,253 Mn., up 10.2% year-on-year. This was driven by a widening of the financing and investment margin, which reached 4.34%, as policy rates increased and our funding platform continued to deliver a world-class funding mix at the lowest industry cost.

Fees and other income grew 4.9% to SAR 4,067 Mn. as strong growth in Treasury and Al Rajhi Capital offset a more competitive fee environment in the Retail and Corporate segments.

Exchange income was SAR 755.8 Mn., down from SAR 841.8 Mn. in 2017, reflecting a more volatile market environment, while other income was SAR 209.7 Mn., down from SAR 336.4 Mn. last year, due to some non-recurring items.

Financial results comparison

Description	2018 SAR Mn.	2017 SAR Mn.	2016 SAR Mn.	2015 SAR Mn.	2014 SAR Mn.
Total operating income	**17,320**	15,905	15,341	13,746	13,667
Operating expenses	**5,492**	5,237	5,007	4,658	4,519
Net income for the period	**10,297**	9,121	8,126	7,130	6,836

Operating expenses

Total operating expenses for the year increased by 4.9% to reach SAR 5,492 Mn., largely reflecting the ongoing investment in our digital capabilities, as well as the introduction of VAT.

The cost-to-income ratio of 31.7% for the year represents a 120 basis point improvement against 2017.

Discrepancies in operational results for the previous year results:

Description	2018 SAR Mn.	2017 SAR Mn.	Change (+) or (-) SAR Mn.	Change %
Total operating income	**17,320**	15,905	1,415	8.89
Operating expenses	**5,492**	5,237	255	4.87
Net income for the period	**10,297**	9,121	1,176	12.90

Impairment charges

Total impairment charges for the year were 1.1% lower than in 2017 at SAR 1,531 Mn. The cost of risk was 0.63% against 0.66% last year.

Balance sheet

Total assets grew by 6.4% year-on-year as the Bank was able to offset a relatively flat financing landscape by optimising the balance sheet through a reduction of cash balances, and greater investments in securities and in the interbank market.

	FY 2018 SAR Mn.	FY 2017 SAR Mn.	YoY %
Cash and balances with SAMA and other central banks	43,246	48,282	-10.4
Due from banks and other financial Institutions	30,808	10,710	+187.7
Investments, net	43,063	36,401	+18.3
Financing, net	234,063	233,536	+0.2
Total assets	365,004	343,117	+6.4
Due to banks and other financial institutions	7,290	5,523	+32.0
Customers' deposits	293,909	273,056	+7.6
Total liabilities	316,450	287,366	+10.1
Total shareholders' equity	48,554	55,751	-12.9
Risk weighted assets	254,506	251,115	+1
Tier 1 capital ratio (%)	19.1	22.2	-14
Total capital adequacy ratio (%)	20.2	23.3	-13
Liquidity coverage ratio (LCR) (%)	196	199	-1
Basel III leverage ratio (%)	12.9	15.7	-18
Financing to customer deposits ratio (%)	80.8	85.5	-6
Non-performing financing ratio (%)	0.95	0.74	+28
Non-performing financing coverage ratio (%)	341.98	313.82	+9

Assets and liabilities comparison

Description	2018 SAR '000	2017 SAR '000	2016 SAR '000	2015 SAR '000	2014 SAR '000
Cash in SAMA and other central banks	43,246,043	48,282,471	42,149,905	27,053,716	33,585,377
Dues from banks and other financial institutions	30,808,011	10,709,795	26,578,525	26,911,056	16,516,208
Investments, net	43,062,565	36,401,092	34,032,879	39,876,864	42,549,623
Financing, net	234,062,789	233,535,573	224,994,124	210,217,868	205,939,960
Property and equipment, net	8,897,587	7,858,127	6,485,162	5,578,931	4,813,941
Investment properties, net	1,297,590	1,314,006	1,330,868	1,350,000	–
Other assets, net	3,629,245	5,015,464	4,140,354	4,631,213	4,306,446
Total assets	365,003,830	343,116,528	339,711,817	315,619,648	307,711,555
Dues to banks and other financial institutions	7,289,624	5,522,567	8,916,970	4,558,224	2,135,237
Customers' deposits	293,909,125	273,056,445	272,593,136	257,821,641	256,077,047
Other liabilities	15,251,063	8,786,598	6,254,839	6,600,729	7,603,077
Total liabilities	316,449,812	287,365,610	287,764,945	268,980,594	265,815,361

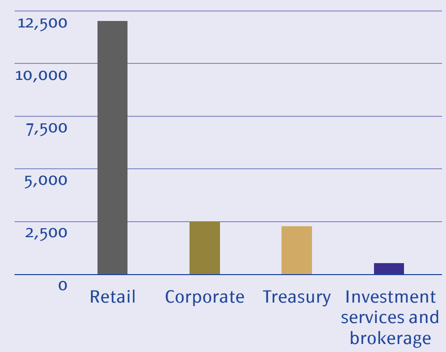
Key performance indicators

Analysis of income by operating segment

Indicator	Retail	Corporate	Treasury	Investment services and brokerage	Total
Total operating income (SAR '000)	12,015,569	2,490,518	2,276,459	536,972	17,319,518
Total operating expenses (SAR '000)	(5,687,481)	(632,765)	(554,728)	(147,677)	(7,022,651)
Net income (SAR '000)	6,328,088	1,857,753	1,721,731	389,295	10,296,867

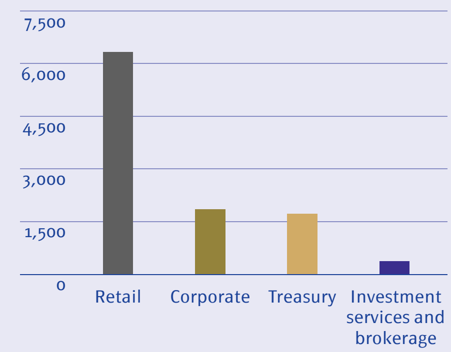
Income by operating segment

SAR Mn.



Net income by operating segment

SAR Mn.



Investments

Net investments increased by 18.3% in 2018, to SAR 43,063 Mn., as the Bank increased its exposure to Sukuks, which, under the leadership of our Treasury segment, enhanced asset utilisation and yield.

Financing and advances

Net Financing was flat at SAR 234,063 Mn., as continued growth in Retail financing offset limited Corporate financing opportunities and some loan repayments. The overall financing mix remains predominantly Retail, with 71.7% of net exposure.

Customers' deposits

Customer deposits increased by 7.6% in 2018 to SAR 293,909 Mn. as the Bank continued to grow non-profit bearing deposits, which represented 94% of total deposits at year-end 2018.

Credit quality

The non-performing financing ratio remains strong at 0.95%, an increase from 0.74% last year, reflecting certain classification changes in our portfolios and strong growth in the Retail financing book. The coverage of non-performing financing increased by 9% from 2017, to 342%.

Capital

Al Rajhi Bank continued to maintain a strong capitalisation profile with core equity Tier 1 and total capital adequacy ratios of 19.1% and 20.2%, respectively, for 2018. These ratios reflect a 1% increase in risk-weighted assets, and a decrease in equity driven by two significant industry-wide factors, namely (i) the adoption of IFRS 9, reflected in retained earnings (SAR 2.9 Bn.), (ii) the settlement agreement with the General Authority for Zakat & Income Tax (GZAT), reflected in reserves (20% of SAR 5.4 Bn. for previous years plus SAR 943.4 Mn. for 2018). Additionally, the Bank's shareholders will see a significant capital distribution corresponding to 67% of net income.

Liquidity

The Bank's liquidity position remained healthy with a liquidity coverage ratio of 196%, while the financing to customer deposits ratio declined by 470 basis points during the year, to 80.8%, from 31 December 2017.

Al Rajhi Bank's retail business is the largest retail banking franchise in the Kingdom and offers a full range of financial products and banking services to individuals, such as current accounts, personal finance, and housing and auto financing.

Financial Performance of Business Units →

	Type of activity	Activity revenues (in thousand SAR)	Percentage %
Retail	Retail sector includes deposits of retail customers, credit facilities, debit current account (overdraft) and banking services, and remittances fees	12,015,569	70
Corporate	Corporate sector includes deposits of corporate, major customers, corporate credit facilities, and debit current accounts (overdraft)	2,490,518	14
Treasury	Treasury sector includes treasury services, Murabaha with SAMA, and international trading portfolio	2,276,459	13
Investment services and brokerage	Includes investments of individuals and corporates in mutual funds, local and international share trading services, and investment portfolios	536,972	3
Total		17,319,518	100

Retail Banking

The Retail segment saw continued growth in 2018, with financing reaching SAR 168 Bn., up 3.3% from 2017.

	FY 2018 SAR Mn.	FY 2017 SAR Mn.	YoY %
Net financing and investment income	**9,998**	9,139	+9.4%
Fees and other income	**2,017**	2,318	-13.0
Total operating income	**12,016**	11,457	+4.9
Operating expenses	**4,510**	4,397	+2.6
Total impairment charge	**1,177**	1,191	-1.2
Net income for the period	**6,328**	5,869	+7.8
Total assets	**187,898**	183,870	+2
Total liabilities	**273,504**	249,430	+10

The Retail segment delivered 4.9% total operating income growth in 2018 to reach SAR 12,016 Mn. Net financing and investment income grew 9.4% year-on-year to SAR 9,998 Mn., driven by a 2% increase in assets, while fees and other income decreased 13.0% to SAR 2,017 Mn.

Operating expenses totalled SAR 4,510 Mn. in 2018, a 2.6% increase year-on-year.

The impairment charge for Retail amounted to SAR 1,177 Mn. for 2018, a 1.2% improvement relative to 2017 due to better credit quality and recoveries during the year.

Net income for 2018 increased 7.8% to SAR 6,328 Mn.

A number of new products and initiatives were launched during 2018, supporting volume growth across our mortgage and personal financing segments. In mortgages, the success of our ongoing partnership with the Ministry of Housing as well as the Real Estate Development Financing has enabled us to further segment our product offering and reach a wider audience, supporting the government's drive for higher home ownership. In Personal financing, we continue to strengthen our leadership by growing our distribution network capabilities. We now have the largest distribution network in Saudi Arabia with 551 branches, 5,006 ATMs, 83,958 POS terminals and 236 remittance centres. We also operate 18 branches in Malaysia, 10 in Jordan and 2 in Kuwait. Over the past 3 years, the Bank registered 4.6% market share growth in remittance centres and growth of 30% in female customers with the introduction of 5 additional dedicated ladies sections and branches bringing the total dedicated sections and branches for ladies to 157, further cementing the Bank's distribution network as the largest in the Kingdom.

Comparison of SME Financial Results:

Financial data of SME during the current year.

As at 31 December 2018	Small	Medium	Total
Finance for small, medium and micro enterprises – on balance sheet (SAR Mn.)	837	4,113	4,950
Finance for small, medium and micro enterprises – off balance sheet (SAR Mn.)	172	756	928
Finance on balance sheet to small, medium and micro enterprises as a percentage of total finance on balance sheet (%)	0.36	1.76	2.11
Finance off balance sheet to small, medium and micro enterprises as a percentage of total finance off balance sheet (%)	1.34	5.90	7.24
Number of financings (on and off balance sheet)	3,494	1,655	5,149
Number of customers (on and off balance sheet) (SAR Mn.)	1,099	759	1,858
Finances number guaranteed by kafalah programme (on and off balance sheet)	394	–	394
Finances total guaranteed by kafalah programme (on and off balance sheet) (SAR Mn.)	370	–	370

Financial data of SME during the previous year.

As at 31 December 2017	Small	Medium	Total
Finance for small, medium and micro enterprises – on balance sheet (SAR Mn.)	1,129	4,120	5,249
Finance for small, medium and micro enterprises – off balance sheet (SAR Mn.)	139	423	562
Finance on balance sheet to small, medium and micro enterprises as a percentage of total finance on balance sheet (%)	0.48	1.76	2.25
Finance off balance sheet to small, medium and micro enterprises as a percentage of total finance off balance sheet (%)	1.02	3.12	4.14
Number of financings (on and off balance sheet)	3,614	2,178	5,792
Number of customers (on and off balance sheet) (SAR Mn.)	1,046	1,327	2,373
Finances number guaranteed by kafalah programme (on and off balance sheet)	288	–	288
Finances total guaranteed by kafalah programme (on and off balance sheet) (SAR Mn.)	461	–	461

Corporate Banking →

Al Rajhi Bank's corporate banking segment offers a comprehensive range of corporate financing facilities as well as trade finance, cash management and financial hedging and protection solutions to corporate customers.

	FY 2018 SAR Mn.	FY 2017 SAR Mn.	YoY %
Net financing and investment income	**1,879**	1,974	-4.8
Fees and other income	**611**	624	-2.1
Total operating income	**2,491**	2,598	-4.1
Operating expenses	**330**	472	-30.0
Total impairment charge	**303**	356	-14.9
Net income for the period	**1,858**	1,771	+4.9
Total assets	**62,102**	63,535	-2
Total liabilities	**18,948**	21,288	-11

The Corporate segment's total operating income amounted to SAR 2,491 Mn. for 2018, a 4.1% decline over 2017. Net financing and investment income decreased 4.8% year-on-year at SAR 1,879 Mn. and fees and other income decreased by 2.1% to SAR 611 Mn.

Operating expenses totalled SAR 330 Mn. in 2018, 30% lower than in 2017. The impairment charge for Corporate Banking decreased by 14.9% to SAR 303 Mn. for 2018 compared with 2017.

Net income of SAR 1,858 Mn. for 2018 was 4.9% higher than in 2017.

During 2018, we introduced new products such as Supply Chain Financing (SCF), facilities that are based on receivables purchase agreement on behalf of the Bank's corporate clients' suppliers; and POS Financing, offered to SME customers through an active point of sale terminal to cover their short term and long term needs.

Treasury →

The treasury segment is responsible for managing the Bank's financial position to accomplish successful structuring of maturities and liquidity, investment efficiency and exchange rates and offers financial hedging and protection solutions to corporate customers.

	FY 2018 SAR Mn.	FY 2017 SAR Mn.	YoY %
Net financing and investment income	1,359	895	+51.9
Fees and other income	917	505	+81.6
Total operating income	2,276	1,400	+62.6
Operating expenses	504	231	+117.8
Total impairment charge	51	1	+9192.1
Net income for the period	1,722	1,168	+47.4
Total assets	111,970	92,783	+21
Total liabilities	23,868	16,107	+48

Treasury and Investments reported a strong performance in 2018, with operating income rising 62.6% year-on-year to SAR 2,276 Mn. This was driven by both higher investment balances and increased net financing and investment yields causing a 51.9% rise in net financing and investment income to SAR 1,359 Mn.

Despite volume-related increases in both operating expenses, to SAR 504 Mn., and impairments, to SAR 51 Mn., the higher operating income translated to 47.4% year-on-year net income growth to SAR 1,722 Mn. for 2018.

2018 saw several new developments in the Treasury department, with new product launches at several desks including Money Markets and FX, a significant ramping up of the activities of our Investment Desk and at our Financial Institutions desk, the creation of entirely new units such as ALM and Structuring and Derivatives Desk. Our remittances business, Tahweel Al Rajhi, has been brought under the umbrella of the Treasury department to enhance synergies, as we continue to invest in our digital platform on this and other channels. Over 55% of all Tahweel transactions were done using electronic means last year.

On the technology front, we are excited that our FI desk played a significant role in the implementation of new technology using Ripple, a blockchain-based digital ledger algorithm, to settle trades with one of our banking correspondents.

Investment Services and Brokerage

The Bank's investment services and brokerage business offers asset management and local and international share trading services.

	FY 2018 SAR Mn.	FY 2017 SAR Mn.	YoY %
Net financing and investment income	**16**	22	-27.1
Fees and other income	**521**	428	+21.7
Total operating income	**537**	450	+19.3
Operating expenses	**148**	137	+8.0
Total impairment charge	**0**	0	
Net income for the period	**389**	313	+24.2
Total assets	**3,033**	2,928	+4
Total liabilities	**130**	540	-76

The Investment Services and Brokerage business grew 2018 operating income to SAR 537 Mn., a 19.3% increase over 2017, driven by brokerage and by investment, which resulted in 24.2% net income growth year-on-year to SAR 389 Mn.

Al Rajhi Capital retained its position as the leading broker on Tadawul, and expanded its market share to 20.3% from 19.6% in 2017. The Asset Management business also expanded significantly with total AUMs (assets under management) up 40% to SAR 38 Bn.

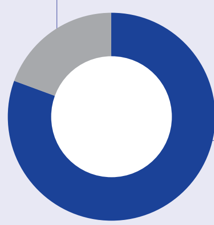
In addition, the unit's Real Estate business saw the milestone IPO of the Al Rajhi REIT Fund, which was oversubscribed by 174%. Lastly, our Proprietary Investments, benefited from several initiatives launched last year and contributed 24% of segment in 2018.

Al Rajhi Capital was named "Best Broker in Saudi Arabia" by EMEA Finance and "Broker of the Year" by Euromoney Global Investor, "Best Provider of Sharia-compliant Funds – 2018" by Global Finance and "Real Estate Investment Firm of the Year" by Euromoney Global Investor.

Financial Performance of Subsidiaries →

	Type of activity	Activity revenues (SAR '000)	Percentage %
Al Rajhi Bank Malaysia	An Islamic bank licensed under Islamic Financial Services Law issued in 2013, incorporated and practices its business in Malaysia.	183,982	-3.29
Al Rajhi Capital	A closed joint-stock company, registered in KSA to work as a main agent and/or provide financial brokerage services, insurance, management, consultancy, arrangements and keeping.	536,972	19.00
Al Rajhi Takaful Agency	A limited liability company, registered in KSA to work as an agent to practice insurance brokerage activities according to agency agreement with Al Rajhi Cooperative Insurance Company.	3,104	-68.00
Al Rajhi Development Co. Ltd.	A limited liability company registered in KSA to support real estate finance programmes of ARB by transferring and keeping real estate ownership documents in its name on behalf of the Bank; collect revenues of selling some properties sold by the Bank; provide consultancies in real estate and engineering field; register real estate contracts; and supervising real estate valuation.	31,830	58.00
Al Rajhi Services Co.	A limited liability company registered in KSA to provide recruitment services.	186,557	10.00

Geographical analysis of total revenue of ARB subsidiaries



Year	Kingdom of Saudi Arabia SAR '000	East Asia SAR '000	Total SAR '000
2018	758,463	183,981	942,444

Financial Performance of International Branches →

Al Rajhi Bank Kuwait

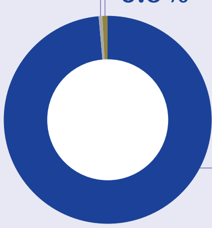
Operating income for 2018 increased to KD 1.55 Mn., primarily due to growth in retail financing portfolio to KD 122 Mn. by 14% YoY compared to average Kuwait market growth rate of 4%. Retail deposit portfolio grew by 75% YoY to reach KD 72.2 Mn.

Deposit concentration (top five deposits) improved from 82.4% in 2017 to 76.3% in 2018. Retail non-performing loans ratio stood at 0.6% against the average market ratio of 2.0%

Al Rajhi Bank – Jordan

Income grew by 13% compared to 2017 to reach JOD 24.8 Mn. (SAR 130 Mn.) as a result of increase in financing income by 14% and commission and fees by 13%. Net profit before tax and provisions grew by 19% to reach JOD13.5 Mn. (SAR 71 Mn.). Total assets grew by 8% to JOD 502 Mn. (SAR 2.7 Bn.) compared to 2017. Financing portfolio grew by 5% in 2018 and reached JOD 348 Mn. (SAR 1.8 Bn.). Shareholders' equity increased by 10% to JOD 68 Mn. (SAR 358 Mn.).

Geographical analysis of total revenue of ARB branches



Year	Kingdom of Saudi Arabia SAR '000	Kuwait SAR '000	Jordan SAR '000	Total SAR '000
2018	16,171,543	73,142	132,390	16,377,075

There are no loans on the Bank or its subsidiaries (whether payable on demand or others).

Applicable Accounting Standards:

The Bank prepares its unified financial statements in accordance with international accounting standards based on circular of CMA no. (2978/4) regarding applying international accounting standards. In addition, the Bank prepares its financial statements in compliance with Banking Control Law, Corporate Law in KSA, and the Bank's Articles of Association.

Investor Relations

At the Bank we focus on sustainable growth because our investors expect optimal returns. We also focus on providing timely and accurate performance results and strategic updates. Such proactive communications bolsters confidence and fidelity, providing us with an invaluable long lasting relationships with the investment community.

We are proud of our sound reputation for communicating with our investors in a consistent, comprehensive and precise manner, taking this responsibility way beyond the minimum regulatory requirements.

Our stakeholders' views are of paramount value to us. Investors feedback is always considered and incorporated into our department's strategies for long-term value creation. We ensure providing maximum information to our investors by various disclosures through investor relations section of the website, investor presentations, quarterly disclosures and earning releases, earning calls and annual reports.

Performance of the share

Key Metrics

14.25 Times
Price/earnings

19.84%
Return on equity

2.74 Times
Price/book

2.94%
Return on assets

4.86%
Dividend yield

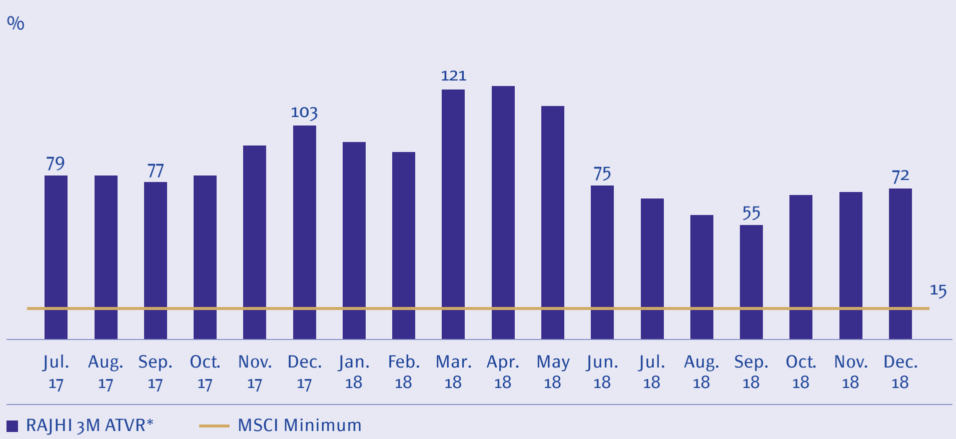
Ratings

A1
Moody's

BBB+
S&P

A-
Fitch

RAJHI ATVR* vs. MSCI minimum requirement (>15%)



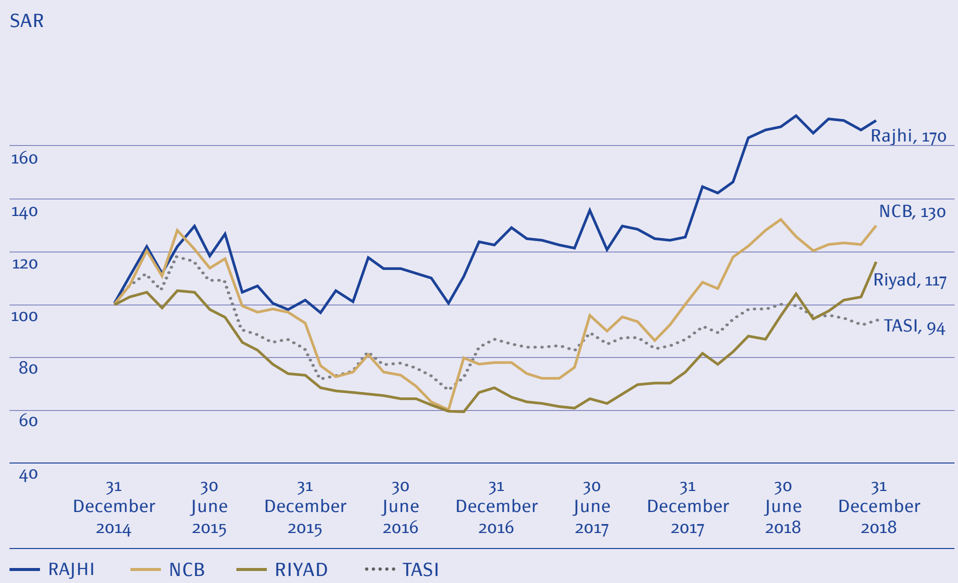
Source: MSCI; *3M AVTR is MSCI's measure of annualised median trading value of FOL and free float adjusted market capitalisation over the last 3 months, which is required to be >15% for MSCI index inclusion.

ARB has the highest weight in the MSCI GCC index.

Share price

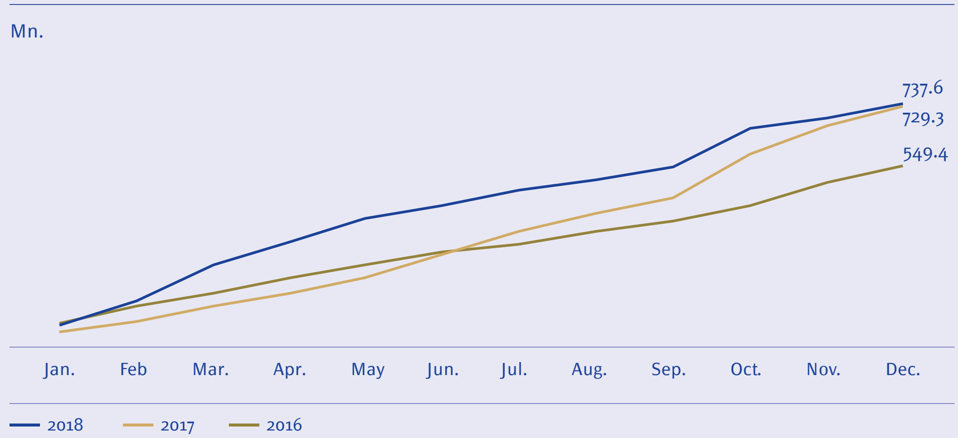
The market value of the Bank's ordinary share was SAR 87.50 as of 31 December 2018, while it was SAR 64.62 as of 31 December 2017.

Share price performance top 3 KSA banks (monthly; Rebased to 100)



During the year ended 31 December 2018, the highest price recorded by the share was SAR 85.90 on 27 December 2018, while the lowest price recorded was SAR 67.00 on 4 January 2018.

Cumulative monthly trading volumes



ARB's trading volumes remained strong consistently.

Digital Footprint

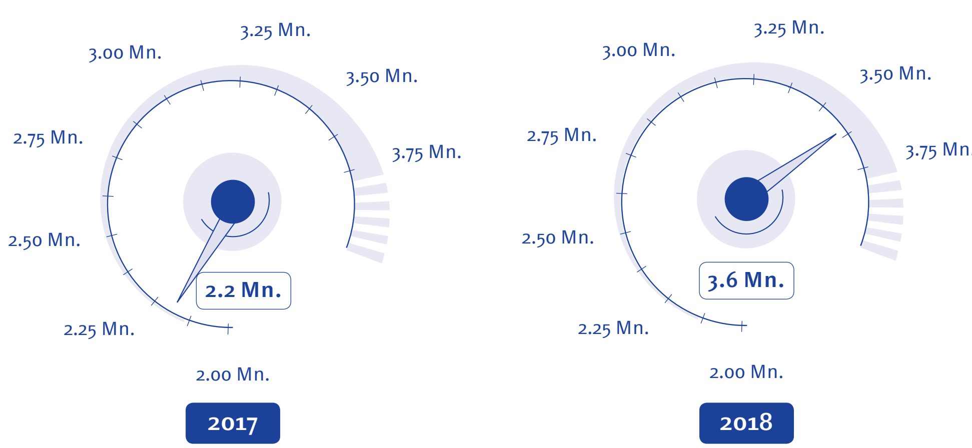
The four themes for 2018 and our achievements at a glance →

We launched a number of digital solutions for key customer segments such as retail, SME, corporate and private wealth solutions during the year.

Exponential jump in retail banking customers using digital services →

Active users for Al Mubasher retail, the Bank's internet banking service for retail customers, exceeded 2018 targets.

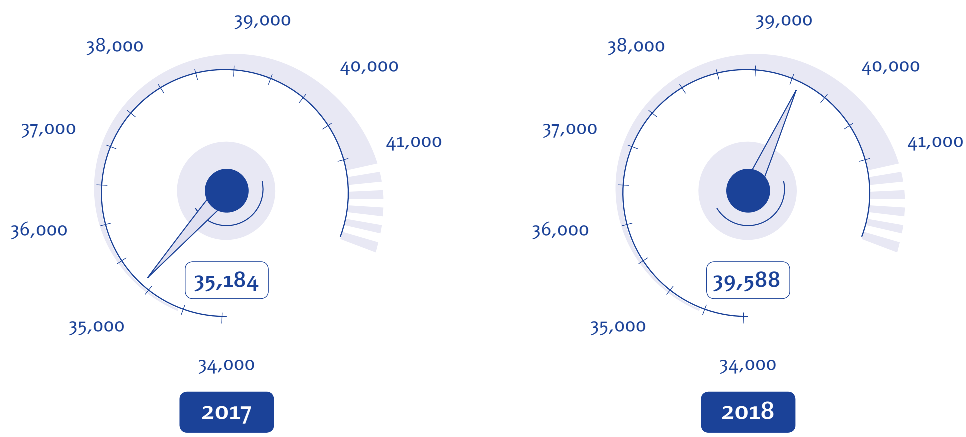
Active users – Mubasher



Corporate banking customers increase interest in digital banking services →

Active users of eCorporate, the Bank's internet banking service for Corporate customers, increased 12.5% over the previous year.

Active users – eCorporate



Digital solutions for SME banking →

The eSME app was launched at end 2018 and is our latest offering for this important customer group, part of our contribution towards the Kingdom's Vision 2030.

eSME

The eSME application explicitly targets the Bank's SME customers. Existing Retail and Corporate customers will be migrated to the new application in order to provide them with improved services.

Functionalities available:

- Home – dashboard
- Current accounts
- Balance certificate
- Cheque book
- POS management
- Tax invoice
- Bill payments
- MOI payments
- Transfers
- Beneficiaries
- Standing Orders
- Payroll
- Payroll cards
- National address in eSME application
- Pending actions
- My profile
- Marketing message
- Users management
- Token management
- Alerts management
- Activity logs

Digital Footprint

Online remittance numbers on the rise →

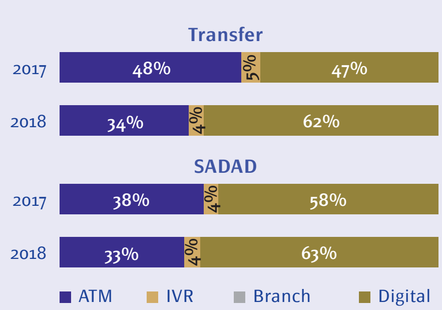
Tahweel Al Rajhi, the Remittances arm of the Bank, launched the Tahweel app in mid 2017. Customers using this app had reached 279,509 in number by end 2018.

Active users – Tahweel

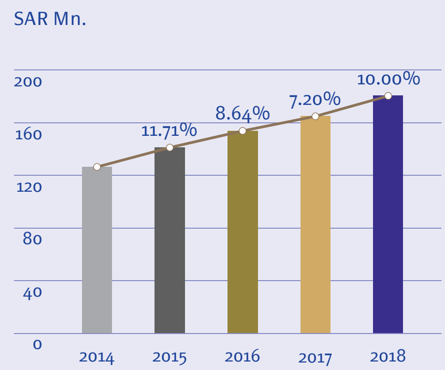
Increased use of digital channels →

Our digital channels (comprising Mobile, Desktop, eCorp and the Tahweel App) are rising in popularity. In 2018, the use of digital channels for transfers rose 15% over the previous year, while digital bill payments (SADAD) increased 5% over the same period.

Transaction distribution 2017 vs 2018



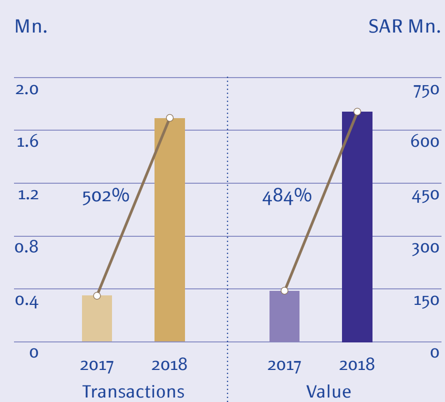
SADAD fees



Online payment gateway increases in popularity →

The Bank's online payment gateway is a secure platform that allows merchants to receive payments through credit cards issued around the world. By the end of 2018, transactions and transaction amounts at our internet payment gateway had increased substantially.

Payment gateway numbers



Sharia Group

Through its memorandum of association, the Bank's commitment to provide Sharia-compliant banking has remained strong over the past 30 years.

To continue its robust dedication towards Islamic banking, the Bank brought together an independent Sharia Board, comprising high-ranking scholars who are specialists in this field. Through their expert guidance the Bank is able to ensure Sharia compliance both within the Kingdom and beyond. The responsibility for constituting the Board and approving its regulation lies with the General Assembly. In addition, it is compulsory for all Bank departments to be in compliance with the Sharia Board's resolutions.

During the 38 Sharia Board meetings held in 2018, the Sharia Board examined 300 subjects including the Bank's:

- Products
- Investment and financing agreements
- Contracts
- Models
- Inquiries

A total of 1,170 resolutions have been issued by the Bank's Sharia Board as of 31 December 2018, while 627 audit standards were issued during the year.

Coordinating the Bank's requirements requires a dedicated team to operate within the Bank and support the Board's work. To this end, the Sharia Group was established, consisting of the following departments:

Secretariat of the Sharia Board
With the support of a number of legal advisors on its team, the duties of the Secretariat include:

- Studying the banking products, agreements, and contracts received from various groups and departments within the Bank
- Preparing the necessary research and legal studies and presenting it to the Sharia Board
- Informing internal departments of the directives and resolutions of the Board
- Participating in the development of Sharia products
- Providing legal advice to internal departments in accordance with the resolutions of the Board
- Executing the minutes of the meetings of the Sharia Board while maintaining and classifying the same to facilitate use

Sharia Supervisory Department
With the support of an integrated team of legal supervisors the Department's role includes:

- Supervising all Bank transactions in regard to the implementation of and compliance with the resolutions and directions of the Sharia Board
- Ensuring that no product, contract or model not approved by the Board is employed
- Ensuring that employees understand the Sharia Board's resolutions and apply the same to their work
- Auditing the work of the Bank through automated systems and field visits in accordance with professional practice, governance, and discussions
- Preparing the annual plan and the quarterly operational plans; determining the objectives, tools and means of auditing used; preparing the necessary reports and submitting them to Sharia Board

The models and templates of auditing are updated as per standards and guidelines issued periodically by the Board.

Sharia Group

A total of 1,170 resolutions have been issued by the Bank's Sharia Board as of 31 December 2018, while 627 audit standards were issued during the year.

Bank employees, customers and those with an interest in Islamic banking have been provided with legal awareness from the Sharia Group through the following means:

- An educational website for employees to clarify the Sharia aspects of the Bank's products and services
- Specialised banking courses for Bank employees numbering 23 during 2018, with a total of 138 training hours and 500 beneficiaries, including sales staff, future managers, branch managers, district managers, operations managers, and other Bank leaders
- A total of six joint workshops on the Sharia aspects of banking products
- Responses to more than 350 telephone inquiries and over 90 postal inquiries
- A total of 10 awareness messages through internal mail to employees about the Bank's products and Sharia guidelines for the same
- A total of 18 outstanding publications on Islamic banking and financial transactions, based on PhD- and MA-level scientific letters by specialists in this field, prepared, printed and distributed to interested parties and commercial libraries
- The provision of scientific support to a number of Sharia researchers in the field of Islamic banking, with workshops held for PhD students in the Jurisprudence Department at the Faculty of Sharia at Imam Muhammad bin Saud Islamic University

In addition, the Department was involved in the following:

- Representing the Bank at SAMA meetings of the Banking Committee and assuming Chairmanship of the Committee during the year under review
- Participating in workshops related to banking products held by SAMA in Riyadh and Jeddah
- Participating in specialised seminars and forums such as scientific seminars organised by the Center of Excellence Research of the Imam Muhammad bin Saud Islamic University, the banking seminar organised by the National Bank and the 16th conference of the Accounting and Auditing Organization for Islamic Financial Institutions (AAIOFI) of the Sharia bodies

Review of Business Portfolio

Operating the largest retail business in the Middle East, Al Rajhi Bank serves over nine million retail customers.

Retail banking group

Highlights for Retail Banking

Over **9 million** customers	Over **3.6 million** digital banking customers	Over **550** branches
Over **5,000** ATMs	Largest distribution network in the Kingdom **No. 1 in ATMs** **No. 1 in Branches**	Top market share across key products **No. 1 in Personal loans** **No. 1 in Auto loans** **No. 1 in Mortgages**

Operating the largest retail business in the Middle East, Al Rajhi Bank serves over nine million retail customers.

During the year, the Bank continued at its top position in terms of branch and ATM networks and remittance centers across the Kingdom, by focusing on increasing its market share in deposit. Through this wide network, ARB customers have access to the entire range of financial products and services from the Kingdom's leader in current accounts, personal loans, auto loans, and mortgages.

Improved private centres and affluent lounges

Continuing to cater to the banking needs and aspirations of its private customers, the Bank extended working hours to 9.00pm at its Private Centres in Riyadh, Jeddah, Dammam, and Makah and at its dedicated Ladies Private Centre in Riyadh. The Bank also increased and enhanced a number of Affluent lounges with contemporary design to meet the expectations of our valued customers and ensure that their experience with us remains comfortable and convenient. The Bank's Affluent lounges now number 300 and span the Kingdom. During the year, we also increased the number of relationship managers at our 60 dedicated Affluent Ladies Sections.

Introducing online account opening

In alignment with the Bank's strategy and its contribution towards the Saudi 2030 vision to engage with technology and implement a cashless society we introduced customers to online account opening during the year under review. By fully automating the account opening process in line with regulations, we provided an attractive new option that enhanced the customer experience and service standards while enticing potential customers to sign up.

The Bank's new retail expansion strategy was supplemented by a new layout for each branch that was designed to enhance the customer experience and entice them to try out and experience digital banking.

Developing the real estate mortgage market

Despite being one of the largest in the Gulf region, Saudi Arabia's real estate market remains underdeveloped, with only an estimated 47% of Saudis owning their own home. Rising incomes, urbanisation, growing families and a young demographic, however, mean that the long-term outlook for the KSA real estate remains positive. A stimulus package of SAR 72 Bn., that supports housing construction and waives fees for small businesses and investors provides further incentive in this market. The government's plans to launch large infrastructure projects, such as Neom City and Red Sea, to meet the goals of Vision 2030 and steer the Kingdom away from an oil-dependent economy means that the real estate market is one to watch in the coming years.

Capitalising on this situation, the Bank launched a real estate programme, in cooperation with the Real Estate Development Fund (REDF) and the Ministry of Housing (MOH) which has already resulted in a positive impact on the book size of our Real Estate financing for the Retail portfolio. The fund is based on the Murabaha principle and supports financing for customers who meet the Bank's credit conditions. The Bank will purchase the property in full on behalf of the customer, with REDF paying the Bank an advance payment on behalf of the customer. This project is one example of the Bank's contribution towards increasing home ownership in Saudi Arabia to 60% by 2020 in line with the Saudi Vision 2030.

During the year, the Bank launched 15 high-demand new products and features in the home financing space, such as self-construction and off-plan, which were supported by government initiatives including profit subsidy, down payment support, and military support. The launch of these products and features was augmented by marketing campaigns to ensure targeted and wider reach among potential and existing retail banking customers in segments as varied as salaried, near retirement, retired, and self-employed. With more such products and features in the pipeline to be launched from 2019 to 2025, the Bank is geared to meet market demand. We look forward to facing the challenges of 2019 head on as we continue to maintain the largest market share in this segment and offer best-in-class customer service while enhancing our relationship with REDF/MOH.

Retail expansion strategy

The Bank's new retail expansion strategy was supplemented by a new layout for each branch that was designed to enhance the customer experience and entice them to try out and experience digital banking.

Retail expansion strategies implemented during 2018 include:

- **More machines at self-service kiosks**
  At its 24-hour, self-service kiosks, known as ASRAA, the Bank installed a total of 230 machines during the year – considered a record even by global standards. These kiosks provide customer with 24x7 banking services.
- **Draft cheque printing**
  For the first time in the market customers are now able to print draft cheques instantly at any self-service kiosk.

Customer spending behaviour and engagement continues to grow on digital platforms such as e-commerce and international transactions which significantly adds to portfolio profitability.

- **Fingerprint technology**

  Customers can now update their personal information using fingerprint technology without having to visit the branch. This initiative is part of the Bank's ongoing strategy to be the market leader in innovative products and services especially in self-service banking.

- **Foreign currency exchange at ATMs**

  Another pioneering self-service banking solution introduced during the year was the facility for customers to exchange foreign currency at ATMs located at different international airports. Able to now withdraw and deposit foreign currency from their accounts utilising fingerprint technology, usage of this new service, especially among transit passengers, is very high.

- **More interactive teller machines**

  The Bank also installed 20 interactive teller machines (ITMs), making ARB the proprietor of the largest such network in Saudi Arabia. ITMs allow customers to communicate with remote tellers through video and audio as they perform various banking transactions. This high-tech solution provides customers with easy and convenient banking options.

- **Customer loyalty programme**

  The MOKAFA'A programme was launched during the year to reciprocate customer loyalty. This programme allows ARB customers to earn points every time they use the Bank's many products and enhanced features. These points can be redeemed at a range of locations belonging to participating merchants or service providers.

- **Electronic signatures**

  Signing a memorandum of understanding with the specialised companies at the Ministry of Communication and Information Technology, the Bank partnered with the National Centre for Digital Certification, to provide "Electronic Signature" service for customers. Instead of having to ask customers to sign documents in person, the new service allows them to add signatures to documents electronically. The new service provides convenience without compromising security. After registering at the National Centre for Digital Certification, MCIT through the Bank, customers are able to request for any new service using digital mediums.

Customer spending behaviour and engagement continues to grow on digital platforms such as e-commerce and international transactions which significantly adds to portfolio profitability.

Cards for convenience

The Al Rajhi Mada Infinite Debit Card was launched for customers with elite lifestyles. It provides access to over 1,000 airport lounges around the world through the Lounge Key Programme and global concierge services including for flight, hotel, and restaurant reservations. Using passwords and CHIP technology these debit cards have superior security features and provide customers with free instant messaging for all financial transactions.

The Al Fursan Card from Al Rajhi Bank was also launched during the year under review. Whenever customers make a payment with this card they receive free air miles on Saudi Arabian Airlines.

With the Kingdom's recent moves to provide ladies with greater autonomy, the Bank launched the Selective Credit Card exclusively for women. The first of its kind in the Kingdom, this card offers our female customers distinction and privacy while providing special offers and discounts at retail outlets for the best in women's goods and services.

The Bank has the third largest and fastest growing portfolio with a milestone of 200,000 revolving credit cards as at end 2018. The Bank continues to be the leader in the market in debit cards, with a market share of eight million cards in circulation, leading in spend volume as well.

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Responsible lending principles

In May, of the year under review, the Responsible Lending Principles were issued by SAMA under Circular Number (46538/99). The main objective of these regulations is to shift consumer behaviour towards savings and mortgage finance and away from consumer finance.

The regulation calls for tighter DBR (Debt Burden Ratio) restrictions across all products, especially auto leasing, in addition to the introduction of an affordability module which includes the consideration of external obligations.

Personal finance

The Bank continued to advance its Personal Finance offering, launching the largest buyout programme which allowed customers to transfer their salaries to Al Rajhi Bank in exchange for the settlement of their financing in other Saudi banks.

Watani Flex Finance, the Bank's fully Sharia-compliant personal financing solution and its most profitable retail banking product, was further enhanced during the year. Processes were streamlined to cater to the needs and aspirations of internal as well as external stakeholders.

Growing the auto finance business

The auto market in general has been witnessing a gradual slump since mid 2016, a trend which continued into 2018 owing particularly to the introduction of SAMA's Responsible Lending framework. Despite this, the Bank's Auto Finance arm managed to increase its yield.

Issue resolution and improved customer service was a priority for the Bank's auto finance team. To this end, one of our customers' top complaints regarding missing duplicate keys was revisited and a more streamlined solution introduced. In addition, the Sub Dealer Rebate programme, a new revenue stream initiative was introduced.

Focusing on small and medium enterprises →

The Saudi Arabian banking sector has a significant growth opportunity in the small and medium-sized enterprise (SME) sector. As part of its contribution towards the Saudi Vision 2030, Al Rajhi Bank plans to increase its support towards SME growth by facilitating various programmes and providing funding for this sector.

SME business

Our SME business flat-lined in 2018 as a result of prevalent market conditions and the Bank's decision to focus on selective businesses. The Bank merged its SME business with Retail Banking to further expand its SME presence by leveraging the existing Retail Branch network and identifying key geographical concentrations of SMEs for better customer reach. The Bank continued to prudently maintain the SME lending book while stabilising asset quality and loss provisions. Key branches were instructed to provide enhanced customer service for SME customers. Our SME business has also enhanced its one-stop-shop concept with the development of comprehensive credit programmes for its business segments, and the launch of POS financing and e-SME (Internet Banking).

During the coming year, the Bank is planning a major revamp of its SME business. In line with Saudi Vision 2030 the Bank will focus on widening its share of the SME market with greater emphasis on Healthcare, Education, Tourism, Services, Transportation, and Communication. The Bank will also focus on

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cash management services for SMEs to fulfil the business needs of cash-heavy traders and retail businesses.

The Bank will also launch specific and targeted lending products. Greater emphasis will be given to process automation and channels to enhance the customer experience and provide a seamless banking service. By introducing a digital platform for customers to interact with and fulfil their banking needs the Bank will be further contributing towards the Saudi Vision 2030 to implement a cashless society.

Corporate banking group →

The Bank's Corporate Banking arm put in another robust performance during the year under review. The Bank maintained its top position by increasing volume in cash deposit machines, payroll, and payroll cards. New products and services such as the Corporate Liquidity Management solution and Business to Business were introduced and further boosted brand value. We continued to exercise stringent controls and focus on greater efficiency as we implemented improved governance standards and a strict compliance culture.

Significant achievements during the year include the following:

- Developed Corporate Sukuk proposition and participated in one of the high profile Sukuk issuances in KSA
- Launched auto receivable securitisation successfully
- Closed several structured REIT financing transactions
- Participated in large ticket syndicated and clubbed transactions
- Conducted four business events during the year, across regions, to reach out to corporate clients in order to cross sell newly launched products and services
- Enhanced KYC processes and brought in additional controls to improve the TAT and customer experience
- Launched the Corporate Liquidity Management solution to provide centralised and automated cash management for Corporates
- Launched business-to-business (B2B) solutions to provide STP (straight through processing) for Corporate Banking, integrating Banking solutions directly between businesses and the Bank
- Re-launched Cash 24 Card (for cash depositing services) in compliance with SAMA's know-your-customer (KYC) requirements
- Revamped eCorp with enhanced services to Corporate clients
  - Ensuring the e-Commerce statement is visible in eCorp
  - Providing national address filling data through eCorp
  - Upgraded SADAD account OLP Live with FG3 as required by SADAD
  - Launched SADAD Invoice Hub Live
- Achieved savings on the cost of CDM and cash pickup vehicles

Supply Chain Finance

The Bank launched a fully-fledged Supply Chain Finance solution (SCF) for Corporate customers, becoming the first Bank in the Kingdom to offer a wide-ranging suite of solutions backed by a strong technological platform available to the entire value chain of customers. The SCF contributes towards one of Vision 2030's goals of supporting private sector growth. It refers to facilities that are based on a receivables purchase agreement with the client, which allows the Bank to be the sole owner of the receivables due from buyers. Purchases are made on a structured basis, allowing the Bank to manage products, disputes, fraud and other risks that may result in non-payment by the buyer.

The Bank maintained its top position by increasing volume in cash deposit machines, payroll, and payroll cards.

The SCF products consist of the following:

- Supplier Finance Programme
- Receivable Finance
- Medical Claim Discounting
- Insurance Claim Discounting (Insurance Corporate Centric)

In addition, to enhance our customer service proposition, we continued to invest in technology, systems and our people. We launched various self-improvement certification and management development programmes in partnership with reputed third party providers, during the year. We also continued to focus on cross selling to improve customer wallet share and enhance the customer experience.

Treasury →

The Treasury Group's main responsibilities are three-fold:

- Manage the Bank's overall funding and liquidity
- Meet client requirements for treasury products
- Maintain relationships with International Financial Institutions
- Provide foreign exchange remittance services to both retail and corporate clients

New products from money market desk

Our money market desk manages the ARB balance sheet, provides funding for the Bank's requirements and optimises the use of funds. In 2018, the money market desk introduced products designed to expand the Bank's liability product mix such as Repo and Wakalah.

Investment desk contributions

Our investment desk, which was established in early 2016, has contributed significantly to the expansion of our investment portfolio over the last three years. The Investment Desk manages diversified asset classes including Government and Corporate Sukuks, Mutual Funds and Equities. It has also actively worked on yield enhancement and portfolio re-balancing, which contributed positively to Treasury's overall income, forming 44% and 53% of the treasury gross yield income in 2017 and 2018 respectively.

Asset liability management function launched

In response to a more comprehensive and robust internal as well as regulatory risk management regime, an asset liability management function was formed as a separate unit in early 2018 to provide specific focus on managing the Bank's liquidity and profit rate risk.

Financial Institutions Department expands network

The Financial Institutions (FI) Department executed a strategic network expansion plan during the year to provide robust support for customer requirements. It expanded access and reach through multiple corridors in the face of strong competition and bank mergers in the market with the aim of maximising customer experience. Currently the Bank maintains a wide network of around 220 FI correspondent banks.

FI has also played a significant role in implementing new technology such as block-chain through Ripplenet. After conducting successful transactions with one of its correspondent banks, the Bank is now working with others in different countries using this technology.

Similarly, FI continues to play a significant role in supporting the Bank's Corporate business to boost its market share in the highly competitive Trade Finance market.

The Bank installed one of the most sophisticated pricing engines for FX, and will now focus on expanding this across its network.

Building new horizons in foreign exchange business

The Bank's Foreign Exchange (FX) business has embraced change, presenting customers with innovative Islamic banking products and digital solutions to offer convenient and comprehensive financial solutions. The Bank installed one of the most sophisticated pricing engines for FX, and will now focus on expanding this across its network. The Bank is now able to offer competitive pricing which moves in line with the market 24 hours a day. The fully-integrated and automated FX pricing engine has state-of-the-art technology to process multiple FX prices across multiple channels within seconds.

Bullion business

In parallel, the Bank has penetrated the KSA bullion business by establishing a Bullion Desk in a market where only few banks offer such a service. The Treasury Group has also increased its presence in the banknotes business by expanding the existing ATM grid. We initially added over 20 multi-currency ATMs at key locations across the Kingdom. The focus on Banknotes has redefined the Bank's standing in the KSA Inter-Bank market, profiling us as a market maker in the wholesale banknotes business.

OTC – Islamic FX forward and variants

The new Islamic hedging product for FX was launched recently giving our clients the flexibility to explore new opportunities to hedge their future exchange exposure risks within the Bank. The product is called the "Islamic FX Forward" (IFX FWD) and is fully Sharia compliant. This product contractually obligates two parties to a reciprocal agreement, to exchange a certain amount in one currency to be exchanged to another currency at an agreed future date and price. The IFX FWD has been at the forefront, triggering further development in the Treasury OTC Islamic product suite.

Islamic FX flexible forward

This is an FX forward contract where settlement is flexible and the client chooses the date of settlement within the agreed/specific time period. Such a product offers our clients the flexibility to withdraw the required FX amount at the agreed rate during the life of the contract.

Re-prioritise Tahweel business

In April 2018, the Bank's remittances arm, Tahweel Al Rajhi was migrated to Treasury to garner greater synergies. Tahweel Al Rajhi is an important element of our business, providing local and global money transfer services and banknotes services in addition to many other premium services in keeping with our passion to meet all our customers' banking needs.

Tahweel has the largest network in the Kingdom with 230 centres offering competitive banking services using state-of-the-art technology and serving customers around the clock.

In line with the Bank's strategy to provide services that are more convenient to customers, Tahweel has added new electronic channels, like Tahweel Mobile Application. Such self-service banking channels allow customers to add international beneficiaries, open new memberships, and make transfers with greater convenience, without the hassle of having to line up at the centre. More than 55% of Tahweel transactions are conducted through E- channels. In addition, Tahweel has launched Al Rajhi keyboard which is an online keyboard that allows customers to execute transfers through any chatting apps including social media apps.

In 2019, our Treasury business will continue to provide new innovative services and products to the Bank's customers in order to meet their expectations and to enhance their experiences.

In 2019, our Treasury business will continue to provide new innovative services and products to the Bank's customers in order to meet their expectations and to enhance their experiences. It will also continue to increase its contribution to the Bank's overall profitability.

Investments services and brokerage →

Business performance

Retained its status as the leading broker on Tadawul in 2018, Al Rajhi Capital grew its market share to 20.26%. Asset Management continued to perform strongly, with total assets under Management increasing by 40% to SAR 38 Bn. Its real estate business grew substantially thanks to the successful IPO of the Al Rajhi REIT Fund, which was oversubscribed by 174%. Proprietary Investments, which are based on income-generating assets, benefited from the full-year impact of initiatives taken in 2017, and contributed 24% to overall revenues in 2018.

These achievements were recognised by several industry awards:

- "Best Broker in Saudi Arabia" by EMEA Finance
- "Broker of the Year" by Euromoney Global Investor
- "Best Provider of Sharia-Compliant Funds - 2018" by Global Finance
- "Real Estate Investment Firm of the Year" from Euromoney Global Investor

Awards such as the above reflect the strength and diversity of Al Rajhi Capital's investment products and solutions, and the committed efforts of the entire team.

Strategic progress

Towards the implementation of its five-year strategy and growth vision for 2020, Al Rajhi Capital introduced a number of key initiatives in 2018. The Company's strategy is closely aligned with the Kingdom's Vision 2030, National Transformation Plan 2020; and the Strategic Plan 2019 of the Capital Market Authority.

Key strategic developments in 2018 include the launch of a major digital transformation initiative, to deliver products and services to clients through digital channels based on a "mobile first" approach.

During the year, the institutional client base of Brokerage and Asset Management saw encouraging growth, with the Institutional Brokerage team partnering with two leading regional brokers to execute transactions for their clients. They helped to position Al Rajhi Capital as the local broker of choice for international clients.

With leading funds performing well, Asset Management successfully added a number of new discretionary institutional mandates across asset classes. In addition, the IPO and subsequent listing on Tadawul of the Al Rajhi REIT Fund significantly expanded the real estate business, with the Company's overall real estate portfolio now standing at over SAR 3 Bn.

Institutional capability was strengthened through further enhancements to the critical areas of employee capital, information technology and digitisation, operations, risk and compliance – ably supported by innovative customer service and marketing initiatives.

During the year, the institutional client base of Brokerage and Asset Management saw encouraging growth, with the Institutional Brokerage team partnering with two leading regional brokers to execute transactions for their clients.

International business group →

A pioneer in its field and the world's largest Islamic bank by capital, the Al Rajhi Bank brand is one that is on par with other major international banks around the globe. Promoting and developing Islamic banking in countries where the Bank operates through the introduction of innovative banking products is one of its key goals. During 2018, the Bank's International business performed well.

Al Rajhi Bank – Malaysia

Beginning the year with the announcement of a new Chairman and member to the Board of Directors the Bank's Malaysia subsidiary performed well during 2018. In fact, our Malaysia operations outperformed all foreign-owned Islamic banks in the country from 2014 to 2017, turning in another stellar performance in 2018. Signing an exclusive 10-year agreement with Sun Life Malaysia Takaful Berhad, the Bank appointed the former as its sole distributor of Family Takaful products and services to its150,000 customer base across the nation.

Presence and Branches

During the year under review, the Bank's International business performed as well as expected.

The Bank also expanded our Cash Management System to be able to provide our customers in Malaysia with an improved experience. Keen to provide customers with products that meet their needs, the Bank also focused on expanding product offerings such as Commodity Murabaha.

In the short term we will be looking to:

- Drive corporate and retail deposits
- Expand our digital offering by introducing Retail Internet Banking and Tablet Banking
- Tap into regional markets with new offerings
- Keep investing in talent management
- Roll out infrastructure improvements
- Continue investing in IT solutions that are focused on improving efficiency and enhancing the customer experience.

(Refer Review of subsidiaries for more details.)

Al Rajhi Bank – Kuwait

The Bank became the first foreign bank in Kuwait to launch a second branch in the region after local regulations on foreign banks were lifted.

The Bank's collaboration with one of the local banks to provide ATM access to our customers is a one-of-a-kind project in Kuwait, providing customers with a wider network to access our banking services. The Bank also began operating our first ever call centre in Kuwait to provide customers with ready access to their Bank in Kuwait. The Bank also launched Ijara and Murabaha mortgages to better serve our customers in Kuwait.

Al Rajhi Bank – Jordan

As part of its strategy to expand its network of branches, the Bank opened three new branches in Jordan, taking the total of branches in the country to 10. Each branch will provide a wide range of banking products and services including home finance, personal finance, car finance and commodities finance, in addition to other products such as current account, joint investment account and many other financial solutions.

Review of Other Operations

To ensure that the Bank abides by all development and regulatory requirements, the Governance and Legal Group monitored and, where necessary, updated all approved policies and procedures for its businesses across the Kingdom and at overseas branches.

Governance and legal group

The Governance and Legal Group has provided through its sub-departments the expected added value to the work of the Bank; therefore, has succeeded in achieving numerous accomplishments, and developed procedures aimed to control business and reduce errors and risks. For example, the Governance Department has developed many policies, practices, procedures and control processes related to governance within the Bank including Related Party Transactions and Dealing with Conflicts of Interest Policy, ARB Board Members Nomination and Appointment Policy and Authorities Matrix for high-level management to comply with regulatory requirements.

In addition, it has updated ARB Governance Manual and has monitored performance of different committees to ensure having an approved charter for each committee; while it has worked on creating new committees and developing Charters of some committees to meet business needs and requirements of regulators.

Furthermore, it has monitored all approved policies and procedures in ARB KSA and overseas branches to be updated as required and to assure abiding by development requirements.

Governance Department aims at achieving adherence of the Bank to all governance related regulatory requirements and it represents the Bank's arm to set rules and regulations that guarantee compliance of all business levels with best practiced rules of governance.

Board Secretariat has finished all its assigned jobs in a professional manner and has utilised modern technology, represented in Convene system, in circulation of Board and Executive Committee resolutions to shorten the length of processing proposals, ensure smooth and efficient work flow in a timely manner with immediate access of all Board and Executive Committee members to Convene.

In addition, Board Secretariat has developed work process by updating its business regulations to be compatible with the Bank's strategy and targets. It has coordinated and collaborated with all proposals' stakeholders to meet business requirements and achieve the best interest for the Bank and other related parties as per approved business regulations.

Board Secretariat has continued to follow up with Board or Executive Committee members and the management to ensure effective processing of all matters related to their resolutions and instructions.

The Legal Department continued to provide legal and advisory services as an internal consultant sector within the Bank and document the Bank's rights to defend them in order to preserve its assets and earnings.

The Shareholders Register Secretariat continued to maintain its performance and professional communication while implementing formal regulations and abiding by their rules.
In addition to the disclosure of all mandatory requirements and distribute all reports and declarations, where all investors can review the Bank's performance on a regular basis.

Human resources group →

Total staff strength

2018
12,732
2017 – 13,077

Saudisation rate

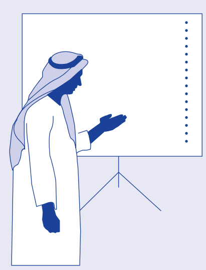
2018
96.0%
2017 – 91.8%

New staff recruited

2018
over 725
2017 – 671

Number of training hours

2018
over 65,000
2017 – 64,000



Learning and development

Al Rajhi Academy

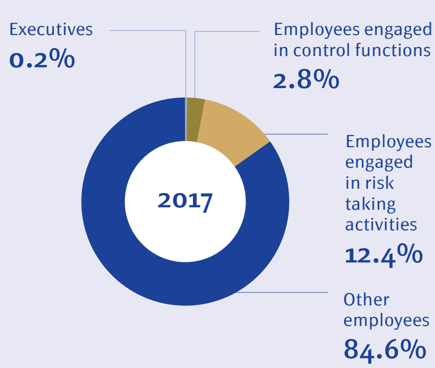
School of Leadership

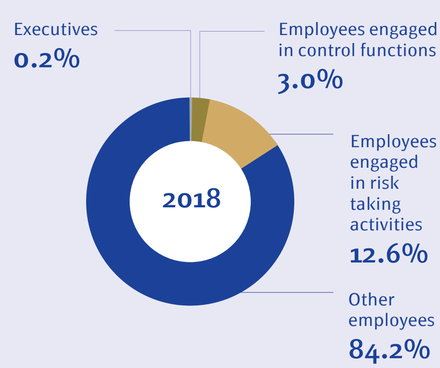
School of Banking

Accolades:

GCC Best Employer Brand Award for Best Graduate Programme amongst KSA Banks.

Employee function





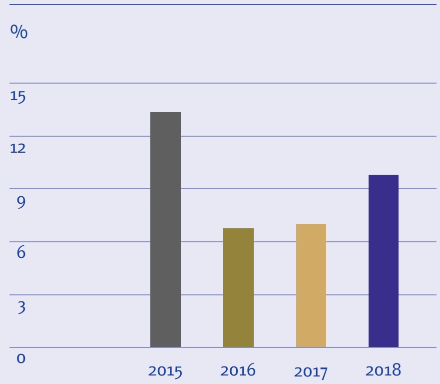
Becoming the employer of choice is one of the pathways of the Bank's 2020 ABCDE strategy.

Employer of choice

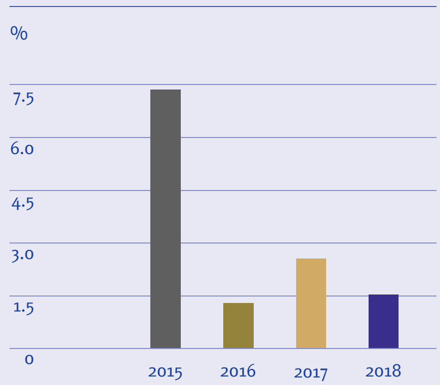
Becoming an employer of choice is one of the Bank's key strategies as it is keenly aware of the positive impact of an engaged workforce. With this goal in view, HR has transformed itself as it worked towards building a motivated, competent and engaged workforce over the past few years; one that is capable of surmounting the current and future challenges of the Bank.

HR has successfully achieved several key milestones already, recording significantly lower attrition in the high performer category.

Overall turnover



High performers turnover



The Bank has been recognised for the third consecutive year as the Best GCC Employer Brand by Employer Branding Institute and the Most Preferred Banking Employer in KSA for Saudi graduates by UNIVERSUM for the second year in a low.

Given below are some of the key strategic initiatives that HR Group has implemented successfully in order to deliver on the broader sustainability objectives.

Recruiting the best

The HR pipeline

Recruit the best
↓
Develop talent
↓
Cater to graduates
↓
Plan for succession
↓
Strengthen leadership
↓
Drive performance

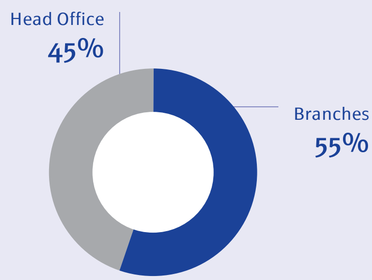
Being the largest banking employer in KSA, we recruited over 725 new employees during 2018. To do so we implemented best-in-class selection tools that include:

- Ability tests
- Psychometric assessments
- Criteria-based interviews
- Fully-fledged assessment centres

Review of Other Operations

The Bank's graduate programmes are also designed to provide the necessary knowledge foundation and resilience for young Saudi female talent to navigate across the current complex banking environment.

Recruitments 2018



To ensure a smooth and effective recruitment process across all regions of the Kingdom we partnered with and depended on:

- Recruitment specialists
- The on-boarding team
- The automated on-boarding process

Developing and managing talent

The HR pipeline

Recruit the best
↓
Develop talent
↓
Cater to graduates
↓
Plan for succession
↓
Strengthen leadership
↓
Drive performance

Once on board, new recruits are carefully cultivated by the Talent Council to ensure that they have the best experience with us and that we create an environment that brings out their latent talents.

Establishing sustainable core talent management practices is an integral part of the 2020 HR Strategy and a key driver for achieving our strategic aspirations towards becoming Employer of Choice. With this intent, we have set up the ARB Talent Council, under the patronage of our CEO to reflect our commitment in developing strong Saudi leadership. The Talent Council plays a critical role in identifying, developing, nurturing and mobilising the Bank's Saudi talent. It prioritises talent under the following categories for the purpose of succession planning for critical roles across the Bank:

- Senior leaders – Tier 1
- Junior leaders – Tier 2
- Emerging leaders – Tier 3

Catering to graduates

The HR pipeline

Recruit the best
↓
Develop talent
↓
Cater to graduates
↓
Plan for succession
↓
Strengthen leadership
↓
Drive performance

The Bank's graduate programme has been rated as the best among all the financial institutions in the Kingdom for the second consecutive year by UNIVERSUM. We adopt best in class selection methodology, including an online ability test and a motivational interview approach to select the best Saudi graduates from different national and international universities.

The Bank's graduate programmes are also designed to provide the necessary knowledge foundation and resilience for young Saudi female talent to navigate across the current complex banking environment.

During 2018, more than 65,000 training hours were delivered to ARB employees covering different domains such as technical, regulatory, leadership, and personal effectiveness.

To date, we have inducted over 150 graduates within the Bank since the programme began in 2015. There are primarily two types of Graduate programmes:

- **Graduate development programme:**

  The graduate development programme is an 18-month journey that includes classroom learning, rotation with business and control functions, attachment with Groups on live projects, mentoring and coaching, and contribution to our CSR initiatives. During the year, we launched the Bank's first dedicated female graduate development programme, the sixth such graduate programme since its inception four years before. So far, three batches have graduated, and three are currently undergoing training.

- **Thematic development programme:**

  The thematic graduate development programme is a 12-month journey and is focused on building domain specific capabilities. To date, we have implemented four such programmes, dedicated to Corporate Banking, SME, IT and Transformation and Change Management. Upon graduation, the participants will take up roles within their respective business or functional areas.

Planning for succession

The HR pipeline

Recruit the best
↓
Develop talent
↓
Cater to graduates
↓
Plan for succession
↓
Strengthen leadership
↓
Drive performance

Succession Planning at Al Rajhi Bank is undertaken with the following objectives in mind:

- Identifying critical positions within the Bank which have a significant impact on its financial and control functions
- Identifying the status of these positions (filled/vacant) and the availability of in-house successors and their preparedness for identified roles
- Developing proactive strategies with respect to succession planning

The identified successors undergo a variety of development initiatives engineered and launched by the HR team in 2018/19 to make sure that the Bank is investing in bridging the gaps between the identified successor and his/her future targeted role.

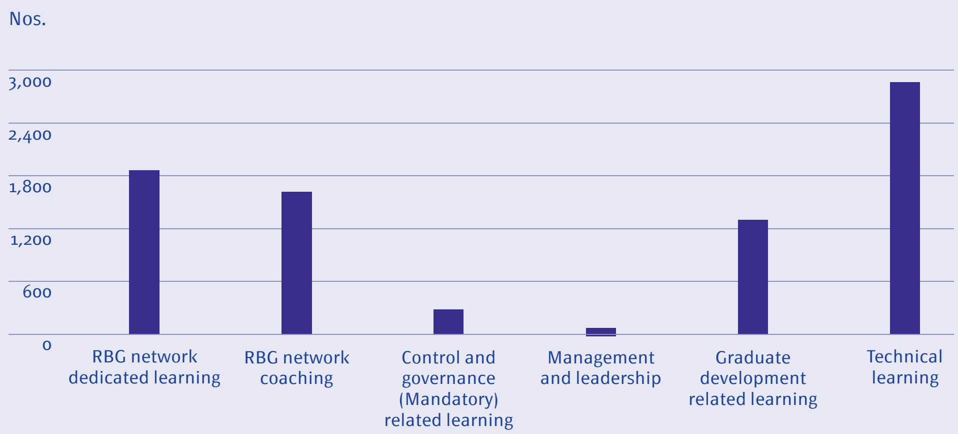
Building strong business leaders

The HR pipeline

Recruit the best
↓
Develop talent
↓
Cater to graduates
↓
Plan for succession
↓
Strengthen leadership
↓
Drive performance

The Bank has embarked on a mission to establish the Al Rajhi Bank Academy to develop the business and leadership capabilities of its employees and meet the goals of its 2025 strategy to be the Employer of Choice. The Academy consists of two key pillars, the School of Leadership and the School of Banking. During 2018, more than 65,000 training hours were delivered to ARB employees covering different domains such as technical, regulatory, leadership, and personal effectives.

Break down of 2018 training days



School of leadership

For Al Rajhi Bank to grow sustainably, it is imperative that the leadership pipeline is strong and vibrant. The following leadership programmes have been launched to address the current and emerging development needs of senior leaders at the Bank:

- Executive leadership programme: Facilitates leadership development, enabling experienced leaders to better manage their current responsibilities while making a greater contribution in an increasingly complex environment
- The leadership development programme: Addresses leadership capabilities needed to develop the next generation of leaders at Al Rajhi Bank and support effective ongoing implementation of our business strategy
- Transition management programme: Empowers individuals during their career progression journey, supporting individuals with focused development and preparing them at each transition stage of their career
- Management development curriculum: Builds confidence and efficiency in employees with people management responsibilities

School of banking

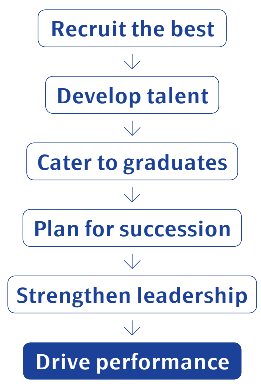
The primary focus of the school of banking is to build role specific capabilities and domain expertise across different businesses and functions of the Bank. This is delivered through a structured development and certification approach. Examples of these structured developments include:

- Treasury and FI Certification
- Corporate Banking Credit Risk Certifications
- SME Credit Risk Certification
- Retail Branch Manager Certification
- Certified Compliance Officer Certification
- Certified Auditor Certification

A blended approach of learning has been adopted in the design of these structured interventions in order to ensure learning effectiveness and drive greater efficiency.

Championing a performance-driven culture

The HR pipeline

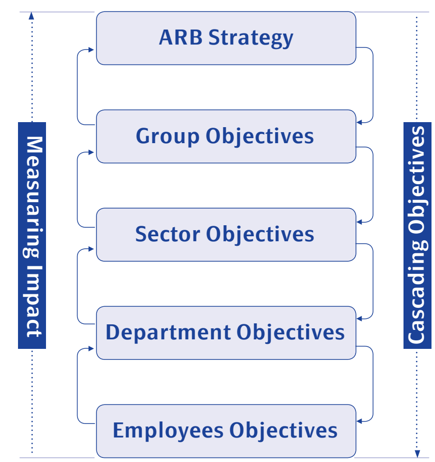


In line with our Vision, Mission, and Values each business unit and support function is required to develop its own strategy which is in alignment with the overall strategies of the Bank.

Achieving the plan of each department depends on the efforts of the employees. To ensure that each employee clearly understands their role in realising the Bank's goals, the Bank's strategic plan is cascaded to each department. Then, working as part of a team, each employee identifies and agrees to the objectives, targets and deadlines they must meet in order to contribute towards the goals of their department and ultimately the Bank itself.

Cascading the strategy to all groups and departments and ultimately to individuals is a critical success factor for the Bank.

Cascading and Cause & Effect



These key performance indicators are met through the Performance Management System, which helps document each employee's progress.

These key performance indicators are met through the Performance Management System, which helps document each employee's progress. It consists of three main phases as shown below:

3

End of the year

Evaluate performance with evidence

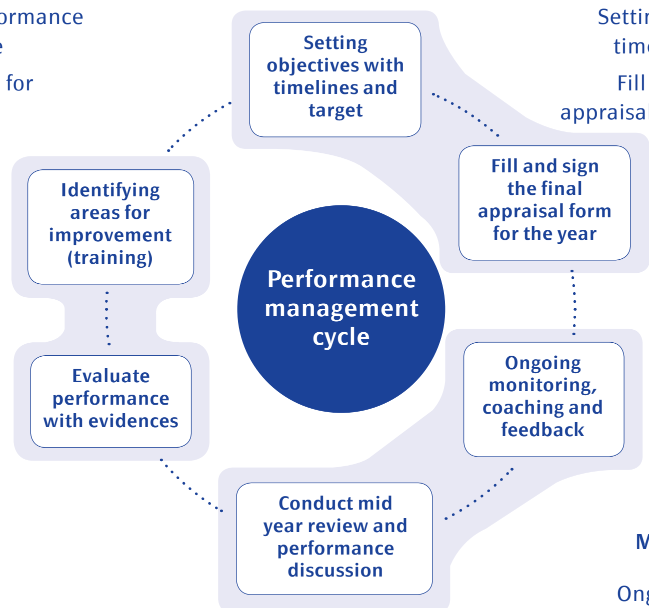
Identify areas for development

1

Beginning of the year

Setting objectives with timelines and targets

Fill and sign the final appraisal form for the year



2

Middle of the year

Ongoing monitoring, coaching and feedback

Conduct mid-year review and performance discussion

- Pay for Performance Rewards Culture

  To ensure consistency and comparability, the Bank has developed its Employee Value Proposition and Compensation policies and practices on a differentiated, pay-for-performance-and-potential model that is linked to the Bank's and the individual's performance and market pay position.

The Bank's rewards strategy and policies are in complete alignment with SAMA's requirements. In February 2018, the Human Resources Group completed a self-assessment review of the Bank's Compensation Incentive Schemes against SAMA rules and FSB standards.

The key pillars of the Bank's compensation framework are:

1. Governance – Board of Directors oversight
2. Policies and procedures
3. Compensation structure and incentive schemes

Risk factors are an integral part of the balanced scorecard for performance management of Senior Executives. The Bank's total compensation approach comprises fixed and variable compensation. The variable components are in alignment with good corporate governance and include claw back and holdback arrangements.

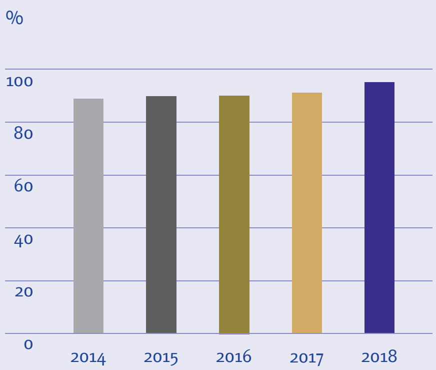
The Bank promotes a culture of strong open communication with all employees to assess engagement levels and identify areas that require further attention.

Digitised HR services

In line with the Bank's ABCDE Roadmap and the HR Strategy to Become an Employer of Choice, the Human Resources Group launched "SAHL", a new generation HR Services application. "SAHL" is a mobile application that is compatible with IOS and Android and is integrated with HR systems that provide employees with the ability to execute their HR Services anywhere, anytime. It improves the convenience, efficiency and reliability of HR services.

Embracing the Kingdom's Vision 2030

Saudisation trend



In line with Vision 2030, the Bank increased its Saudisation ratio to 96% by end of 2018 and increased the female workforce by 32% since 2016.

HR Governance

A dedicated Governance Unit has been established within HR covering audit, risk, compliance and SAMA-related matters. As one of the largest banking workforces in the Kingdom, it is of critical importance that HR maintains strict control and adherence to all policies, procedures and regulatory guidelines. Standardised Control and Risk Governance KPIs are included in all relevant employees' scorecards.

Employee engagement and communication

The Bank promotes a culture of strong open communication with all employees to assess engagement levels and identify areas that require further attention. Communication channels include:

- Pulse surveys
- Focus group discussions
- HR Newsletter
- Online employee communication portal TAWASUL
- Annual roadshows and town halls
- Ramadan family activities

The overall engagement score significantly improved in 2018 and we continue to enhance HR solutions and deliverables to meet employee expectations.

As part of the multi-year transformation journey, Internet and Mobile banking continues to be a key focus of our Digital Agenda.

Shared Services Group

Information Technology (IT) Department

Throughout 2018, the Bank's IT Department continued on its journey towards transformation and digitisation (refer Digital Footprint on page 54 for a detailed overview). Under the patronage of the IT Steering Committee, multi-year strategic programmes were initiated and are now well underway, moving the Bank forward in its ambition to become the leading digital bank in the region.

Against a backdrop of tightening local and international regulations, the IT Department implemented more than 400 initiatives, directly contributing to the Bank's strategic agenda, including:

- Regulatory and compliance: Increased stability and security
- Revenue generation and cost efficiency: Improved profitability
- Meeting customer needs: Increased customer satisfaction
- New and improved digital channels and services: Faster time-to-market

As part of the multi-year transformation journey, Internet and Mobile banking continues to be a key focus of our Digital Agenda. Multiple enhancements have been introduced for both Retail and SME customers to improve not only the available services but, importantly, the Internet and Mobile customer experience. The integration of the Al Rajhi Mobile Application with WhatsApp is a great example of innovation that enhanced the user experience and ease of use for customers to Bank with Al Rajhi (Refer Contact Centre Department on page 79).

A richer array of self-service options has been introduced within our ATM network enabling a broader spectrum of banking services outside Branch hours for customers who prefer physical to virtual interaction.

The Bank continued its focus on cyber security to maintain safe and secure services for customers, 24 hours a day, and seven days a week. This strategy has enabled the Bank to mitigate and address cyberattacks with zero impact on customers.

The Bank's emphasis on customer centricity requires "state-of-the-art" customer relationship management tools. During the year, we empowered our call centre agents with tools that provided a comprehensive 360º view of customer needs, enabling us to act swiftly to fulfil customer requests or address issues.

The Bank also extended the types of accounts available to customers to enable a broader set of services to accommodate the needs of our diverse customer segments. New account types include:

- Citizen account
- Family
- Escrow
- Virtual accounts

Technology is at the heart of our customer experience as we continue to maintain and support the needs of our nine million customers, safely and securely.

Operations Excellence and Governance Department

During the year, this department continued its focus on reducing errors and enhancing the customer experience. It did so by bringing efficiency and cost effectiveness to end-to-end processes throughout the Bank's back-office functions over the short to medium term. This involves:

- Making changes to our current operating model
- Streamlining processes
- Implementing control enhancements
- Employing the latest technology

Review of Other Operations

The Bank's Business Operations arm takes responsibility for the smooth delivery of banking services, handling all back office operations for all business lines within the Bank.

On its journey towards operational excellence the Bank implemented the following initiatives:

- Robotic solutions for retail credit approvals, sanction screening and other operational processes
- Managed services for functions like reconciliations and card operations
- Outsourcing of cash centre operations

One of the most important responsibilities of this department is to ensure that the Bank is in compliance with internal and external policies and regulations. We also ensure that the Shared Services group is compliant with Audit, Compliance and Risk requirements. The creation of this function has helped to improve the control environment across the Shared Services.

Over the forthcoming year, the focus will be on rolling these initiatives to other lines of business in the Bank so that efficiency and effectiveness can be further improved across the Bank.

Contact Centre Department

The Contact Centre's objectives are:

- To enhance the after-sale services
- To respond promptly and effectively to customer inquiries and requests
- To resolve complaints to the customer's satisfaction

A snapshot of Contact Centre activity in 2018:

- Received more than 7.8 million calls
- Received over 1.4 million service requests
- Resolved over 204,000 complaints

The Bank successfully launched a new customer relationship management system, with the 360 degree view of the customer as mentioned previously. Innovations such as these help us win the customer's loyalty and trust, knowing that we care enough to listen and respond to their banking needs. We also use a predictive complaints system using big data technology to resolve customer issues proactively.

In line with the Bank's strategy of Digital Leadership, the Contact Centre launched the "WhatsApp Channel" – the first bank in the Kingdom to launch WhatsApp services using an official business number. This is part of our omni-channel programme which is designed to enhance other Contact Centre channels like email and social media to deliver a seamless experience across all customer touch points.

Business Operations and Support Department

The Bank's Business Operations arm takes responsibility for the smooth delivery of banking services, handling all back office operations for all business lines within the Bank. Its key activities include:

- Managing cash and operations for ATM and Point of Sale (POS)
- Managing cash collections and despatching to branches, Tahweel Centre and retailers
- Handling domestic and international payments
- Managing back office for Treasury activities
- Processing trade transactions
- Processing credit applications for retail customers
- Executing lending deals for corporate, Mid corporate and SME customers
- Supporting all consumer products operations such as personal loans, credit cards, car lease and real estate
- Archiving documents and ensuring their authenticity, quality and compliance with the regulatory instructions

During the year, the Department focused on improving process efficiency and the control environment. Business Operations optimised cash management across all channels and improved ATM availability to meet and exceed SAMA service levels. We also improved processes aimed at reducing customer ATM claims, streamlining insurance for cars and real estate assets, and reducing turnaround time for credit approvals and ancillary services.

The Compliance Group supports the Bank in achieving its objectives by complying with all rules and regulations applicable within the Kingdom of Saudi Arabia and covered by global standards and best practice.

The Bank implemented a new payments system which provides it with a platform to introduce advance payment services. A new fraud management system was also implemented to cover the cards acquiring side of transactions. In addition, we are utilising the services of specialised vendors who undertake non-core activities. All these strategies have not just enhanced efficiency but will also support standardisation of processes and reduce operational costs for the Bank.

During 2019, the Department will focus on the following:

- Realigning Business Operations' end-to-end accountability model
- Further improving service delivery and the customer experience

The Properties and Support Services Department is responsible for the management and implementation of all engineering projects for the Bank, from planning, design and construction to renovation and operation, across of all its properties in all regions of the Kingdom. The Department is currently maintaining and supporting more than 900 branches and remittance centres and more than 5,000 ATMs.

In 2018, the Department successfully completed the head office building, Al Rajhi Tower, with a built up area of 100,000m^2, and the operations and technology building, North Ring Road Complex with a built up area of 68,000m^2. Together the buildings have a staff capacity of more than 3,000 employees and offers state-of-the-art facilities. Catering to employee needs these facilities include:

- Educational and administrative facilities
- State-of-the-art gym
- Break out areas for team collaborations
- Mosque
- Medical unit
- Fully-catered dining area
- Ample parking spaces for the entire employee cadre

In addition, the Department completed the new ladies' headquarters occupying 22,000m^2 with a staff capacity of more than a 1,000 female employees.

The Department is responsible for managing all of the Bank's suppliers and service providers in terms of contracts, purchase orders and invoices.

It is also responsible for providing security and safety for all Bank assets in the Kingdom, through the application of various policies, technologies, and security devices to ensure safe work flow at all times.

Compliance Group →

Compliance and financial crimes risks have become some of the most significant ongoing concerns for financial institutions in the Kingdom, where regulatory penalties have dramatically increased since 2016 and the scope of regulatory focus continues to expand. Accordingly, the Compliance Group has expanded beyond offering advice on statutory rules, regulations, and laws and become an active regulatory co-owner of risk, providing independent oversight over the control framework. The new approach starts by defining which risks apply to a given business process and identifying where exactly in the process they occur.

The Compliance Group supports the Bank in achieving its objectives by complying with all rules and regulations applicable within the Kingdom of Saudi Arabia and covered by global standards and best practice.

The Compliance Group has two main functions: compliance and financial crimes.

Compliance is mainly responsible for:

- Interpreting the regulatory requirements
- Identifying the associated risk that might impact the Bank's reputation
- Implementing regulatory requirements

Major investments in governance, systems, data, processes and people capabilities were made over the past three years.

Financial Crimes is a specialised department that is responsible for combating:

- Money laundering
- Terrorism financing
- Financing weapons of mass destruction
- Bribery and corruption
- Sanction and name screening
- Self-supervision

The Group Chief Compliance Officer (GCCO) leads the compliance function and assists Management in identifying and assessing compliance issues and in guiding and educating staff on related matters. The GCCO has a direct contact with the Board of Directors, Chairman of the Board or its members. In addition, he directly reports to the Board Audit and Compliance Committee, and also reports to the CEO administratively.

The GCCO has oversight of the Compliance programmes of the Bank's Overseas Branches (Jordan and Kuwait) and Banking Subsidiary (Malaysia).

Key accomplishments in 2018

Major investments in governance, systems, data, processes and people capabilities were made over the past three years.

Described below are the key accomplishments in 2018:

- **Compliance organisation and people:** The Bank continues to invest in Compliance. The current headcount of the Compliance Department as of December 2018 is 151, a growth of 147 % in FTE count. Female staff number 16. Training and awareness campaigns continued to be enhanced and expanded across the Bank.
- **Transaction monitoring and reporting of suspicious transactions (AML):** In 2018, the latest version of the AML Transaction Monitoring System was introduced with improved visual analytics and case management features implemented in the Kingdom, Jordan, and Kuwait. A Robotics Process Automation solution was also introduced.
- **Sanctions programme:** The Bank made major enhancements to its Sanctions Programme. In 2018, the Bank implemented the "Daily-Delta Screening" methodology. Using this solution, the Bank's customers and beneficiaries are screened on a daily basis against sanction list updates.
- **Customer risk assessment:** The Customer Risk Assessment Methodology and model was enhanced in 2018. The AML risk rating for all customers (KSA, Jordan, and Kuwait) was updated.
- **Compliance management system:** An automated Compliance Management System was implemented which contains the compliance catalogue (library of regulatory requirements) and risk registers. This system was rolled out across Saudi Arabia, the Bank's overseas branches (Jordan and Kuwait) and its subsidiary (Malaysia).
- **Compliance training and awareness:** Major programmes delivered to improve the training and awareness across all three lines of defense.

World-class compliance: Our vision for 2019 compliance programme

In line with global best practices in 2019, the Compliance Group will focus on emerging risks surrounding "disruptive" technologies and innovations. These include assessment and mitigation of:

- Money laundering and terrorist financing risks
- On-line customer on-boarding
- Robotics process automation
- Block-chain

The Internal Audit Group's Mission is assuring the Board of Directors independently and objectively about the efficiency and effectiveness of internal audit systems, risk management, Bank governance and the optimal use of available resources to achieve the operational and strategic objectives of the Bank.

Internal audit group

Internal audit represents the third defence line that provides reasonable assurance on the efficiency and effectiveness of other control functions, including Risk and Compliance Departments as second line of defence. Moreover, the role of the Executive Management of the Bank includes designing and implementing effective internal controls as a first line of defence. The Internal Audit Group's objectives include providing to the Board of Directors reasonable, objective and independent assurance on the efficiency and effectiveness of internal control systems, risk management, and Bank's governance including integrity and accuracy of information, regulatory reporting, level of compliance with policies, regulatory requirements, assets safeguarding measures and best utilisation of resources to achieve the Bank's operating and strategic objectives.

The work scope of Internal Audit Group includes: Bank's activities within the Kingdom, oversight of internal audit activities located in overseas branches and subsidiaries.

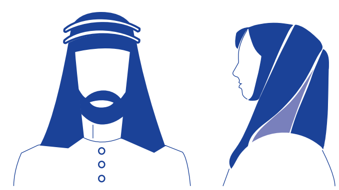
To achieve its objectives, internal audit carries out its activities following a risk-based audit approach and the international auditing standards issued by The Institute of Internal Auditors supported by a qualified, skilled and experienced team to carry out its activities in an effective and professional manner. To ensure effectiveness and transparency, the audit team has been granted the required access to the Bank's records, systems, employees' activities and unlimited access to Bank's premises.

Corporate social responsibility

In 2018, the Bank gave back to the communities within which it operates by initiating several social responsibility programmes that included the participation of Bank employees.

75 social responsibility programmes in **22** cities

2,904 volunteer employees



2,288 male volunteers

616 females

11,215 volunteer hours by males

2,900 volunteer hours by females

Total volunteer hours **14,115**

The Bank was keen to ensure diversity in groups that benefited from these programmes including:

- The differently-abled
- Orphans
- The unfortunate
- Those with special needs

In addition, the Bank supported anti-smoking programmes and focused on raising financial awareness in secondary schools in Riyadh. The Bank participated in international days to raise awareness of important issues and spread knowledge within the community.

Review of Subsidiaries and International Branches

To meet its goals, including the promotion and development of Islamic banking within and beyond the Kingdom's borders, the Bank has established a number of subsidiaries of which it owns all or a majority of shares.

Subsidiaries

Al Rajhi Bank Malaysia

An Islamic bank licensed under Islamic financial services law issued in 2013, incorporated and practices its business in Malaysia.

Al Rajhi Capital

A closed joint stock company, registered in KSA to work as a main agent and/or provide financial brokerage services, insurance, management, consultancy, arrangements and book keeping.

Al Rajhi Takaful Agency

A limited liability company, registered in KSA to work as an agent to practice insurance brokerage activities according to agency agreement with Al Rajhi Cooperative Insurance Company.

Al Rajhi Development Company Ltd.

A limited liability company registered in KSA to support real estate finance programmes of ARB by transferring and keeping real estate ownership documents in its name on behalf of the Bank, collect revenues of selling some properties sold by the Bank, provide consultancies in real estate and engineering field, register real estate contracts and supervising real estate valuation.

Al Rajhi Services Company

A limited liability company registered in KSA to provide recruitment services.

There are no loans on the Bank or its subsidiaries (whether payable on demand or others).

Subsidiary name	Capital	Ownership %	Country (place of operation)	Country (place of foundation)
Al Rajhi Bank Malaysia	1,051,714,300	100	Malaysia	Malaysia
Al Rajhi Capital	500,000,000	100	KSA	KSA
Al Rajhi Takaful Agency	2,000,000	99	KSA	KSA
Al Rajhi Development Company Ltd.	1,000,000	100	KSA	KSA
Al Rajhi Services Company	500,000	100	KSA	KSA

International Branches

Al Rajhi Bank (Kuwait)

A foreign branch registered with the Central Bank of Kuwait.

Al Rajhi Bank (Jordan)

A foreign branch operating in Hashemite Kingdom of Jordan providing all financial, banking, and investments services and importing and trading in precious metals and stones in accordance with Islamic Sharia rules and under the applicable banking law.

Subsidiary name	Capital	Ownership %	Country (place of operation)	Country (place of foundation)
Al Rajhi Bank Kuwait	389,888,426	100	Kuwait	Kuwait
Al Rajhi Bank Jordan	264,842,950	100	Jordan	Jordan

Number one banking brand in the Kingdom of Saudi Arabia

Brand Finance

Corporate Governance

Corporate Governance

Corporate governance encompasses the set of rules, practices, systems and procedures which direct and control the activities of an organisation. The governance structure helps the Organisation to balance the interests of the various stakeholders in the process of value creation.

Policies relating to the governance manual

In 2014, the Bank issued a Corporate Governance Manual and a Governance Manual Supplement which includes term of references (Charters) for Board Committees and Management Committees.

These documents are subject to annual review. Furthermore, the Bank applies the key principles of the Saudi Arabian Monetary Authority's (SAMA) Corporate Governance Principles for Banks operating in the Kingdom of Saudi Arabia that was issued in June 2012, as updated on 23 March 2014, in addition to Capital Market's Authority's (CMA) Corporate Governance Regulations and International best practices

A number of policies, practices and procedures relating to corporate governance have been developed. The Governance Manual was updated during the year. The Delegation of Authorities (DOA) matrix has been amended to adequately reflect internal practices.

A comprehensive policy of the Bank relating to Management of Related Parties Transactions and conflicts of interest was adopted in 2018 in order to address relevant regulatory requirements from the Companies Law, CMA Governance Manual and SAMA's principles and guidelines; a policy for Nomination and Membership in the Board of Directors was adopted by the General Assembly Meeting held on 4 March 2013 and was further amended and approved by the General Assembly Meeting held on 22 October 2017 to reflect all the changes derived from the Companies law and relevant regulations from CMA and SAMA, detailed procedures were developed in 2018.

In addition, a policy for Remunerations and Compensation of Board Members was approved by the General Assembly Meeting held on 22 October 2017, such policy provides detailed approach for determination of remuneration paid to Board and External members within the Board of Directors, Board Committees and Audit and Compliance Committee.

The competencies and functional succession policy and plans has also been adopted both for Board members and key positions within Executive Management. This provides for career development for staff with high potential and also meets the immediate and future staffing needs of the Bank. It also promotes Saudization. The Whistle-Blowing policy encourages the reporting of improper behavior or any activity that violates the Bank's policies, procedures and instructions.

The Bank, through its comprehensive disclosure policy, ensured that all material information, inclusive of banking information required to be disclosed by SAMA and CMA regulations is disclosed to shareholders. The Bank has also adopted a policy for social responsibility, that aims at strengthening the social role of the Bank.

The Bank has developed an Introduction Pack to assist new Board members. This pack contains information on the financial and legal aspects of the Bank. In addition, Board members are provided with all information needed to perform their duties. They are also provided with training on any relevant subject including the regulatory, financial and economic aspects pertaining to the Bank and its operating environment.

The Bank has procedures in place to settle customer complaints which are monitored by the SAMA.

Corporate Governance Regulations of the CMA

Bank has given due cognisance to the currently applicable corporate governance regulations as enumerated by the Capital Market Authority of the KSA. Given below is a report on corporate governance practices at the Bank and the extent of compliance with the relevant CMA regulations.

Implementation and non-implementation of provisions of the CMA Regulations

The Bank applies all provisions of Corporate Governance Regulations issued by the Capital Market Authority (CMA), except the following guiding provisions:

Profiles of the members of Board, Committee and Executive Management

Board structure

The Board of Directors of the Bank comprises 11 members elected by the Ordinary General Assembly every three years. Any member may stand for re-election after completing his or her term in accordance with the Bank's regulations.

Refer Board of Directors on page 18 and Executive Management on page 22 for the profiles of the Members of Board, Committee and Executive Management.

Article	Requirements	Reasons for not applying
Article (41) – Clause "E"	The Board shall carry out the necessary arrangements to obtain an assessment of its performance from a competent third party every three years. (Guiding paragraph)	The assessment is conducted internally on an annual basis.
Article (54) – Clause "B"	The Chairman of the Audit Committee shall be an Independent Director. (Guiding paragraph)	A Non-Executive Board member chairs the Audit and Compliance Committee at ARB and he has been selected based on his qualifications which are found appropriate for the position.
Article (87)	The Ordinary General Assembly, based on the Board recommendation, shall establish a policy that guarantees a balance between its objectives and those of the community for purposes of developing the social and economic conditions of the community. (Guiding article)	ARB has a Social Responsibility Policy approved by the BoD.

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

Member name	Names of companies where the Board member is a member of its current Boards or one of its Directors	Inside/ outside Kingdom	Legal entity (listed joint stock company/ unlisted joint stock company/ limited liability)	Names of companies, in which the Board member is a member of its previous Boards or one of its previous Directors	Inside/ outside Kingdom	Legal entity (listed joint stock company/ unlisted joint stock company/ limited liability)
Abdullah bin Sulaiman Al Rajhi	• Al Rajhi Bank • Al Rajhi Company for Cooperative Insurance • Farabi Petrochemicals Company • Al Rajhi Holding Group • Al Rajhi Capital • Fursan Travel & Tourism Company	Inside the Kingdom	• Listed joint stock company • Listed joint stock company • Unlisted company • Unlisted company • Unlisted company • Limited liability company	• Al Rajhi Bank (CEO)	Inside the Kingdom	• Listed joint stock company
Salah bin Ali Aba Alkhail	• Al Rajhi Bank • Al Rajhi Capital • National Veterinary Company • Abalkhail Consulting Engineers • Salah Aba Alkhail & Co. Information Technology	Inside the Kingdom	• Listed joint stock company • Unlisted company • Unlisted company • Limited liability company • Limited liability company			
Abdulaziz bin Khaled Al Ghefaily	• Al Rajhi Bank • Al Rajhi Capital • Savola Group • Panda Retail Company	Inside the Kingdom	• Listed joint stock company • Unlisted company • Listed joint stock company • Unlisted company	• Industrialization & Energy Services Company (TAQA) • Dur Hospitality • Saudi Industries Development Company • Tabuk Agriculture Development Company • National Medical Care Company • Herfy Food Company	Inside the Kingdom	• Unlisted company • Unlisted company • Unlisted company • Listed joint stock company • Listed joint stock company • Unlisted company

Member name	Names of companies where the Board member is a member of its current Boards or one of its Directors	Inside/ outside Kingdom	Legal entity (listed joint stock company/ unlisted joint stock company/ limited liability)	Names of companies, in which the Board member is a member of its previous Boards or one of its previous Directors	Inside/ outside Kingdom	Legal entity (listed joint stock company/ unlisted joint stock company/ limited liability)
Bader Bin Mohamed Al Rajhi	• Al Rajhi Bank • Mohammed Abdulaziz Al-Rajhi & Sons Investment Company • Rajhi Steel Industries Limited • Global Beverage Company • Al-Jazirah Home Appliance Company, Ltd. • Falcon Plastic Products Company	Inside the Kingdom	• Listed joint stock company • Limited liability company • Limited liability company • Limited liability company • Limited liability company • Limited liability company			
Khaled bin Abdulrahman Al Qwaiz	• Manafe Investment Company • Al Rajhi Bank • Swicorp Company • Riyadh Cables Group Company • EMCOR Facilities Management Co • Unique Solutions for Chemical Industries (USIC)	Inside the Kingdom	• Limited liability company • Listed joint stock company • Unlisted company • Unlisted company • Unlisted company • Unlisted company	• ACWA Holding Company • ASTRA Industrial Group • Samba Financial Group • Arab National Bank	Inside the Kingdom	• Unlisted company • Listed joint stock company • Listed joint stock company • Listed joint stock company
Alaa bin Shakib Al Jabri	• Al Rajhi Bank • Construction Products Holding Company • Rolaco Group • Medical and Pharmaceutical Services Company	Inside the Kingdom	• Listed joint stock company • Unlisted company • Unlisted company • Unlisted company	• SABB • Gulf International Bank	Inside and outside the Kingdom	• Listed joint stock company • Unlisted company

Member name	Names of companies where the Board member is a member of its current Boards or one of its Directors	Inside/ outside Kingdom	Legal entity (listed joint stock company/ unlisted joint stock company/ limited liability)	Names of companies, in which the Board member is a member of its previous Boards or one of its previous Directors	Inside/ outside Kingdom	Legal entity (listed joint stock company/ unlisted joint stock company/ limited liability)
Ibrahim Fahad Al Ghefaily	• Al Rajhi Bank • Jiwar Real Estate Management, Marketing and Development Company	Inside the Kingdom	• Listed joint stock company • Unlisted company	• Alinma Bank • Al Rajhi Bank	Inside the Kingdom	• Listed Joint stock company • Listed Joint stock company
Amin bin Fahad Al Shiddi	• Al Rajhi Bank • VIVA – Kuwait Telecom Company • Deutsche Gulf Finance • Oger Telecom Company	Inside and outside the Kingdom	• Listed joint stock company • Unlisted company • Unlisted company • Unlisted company	• STC Solutions • Advanced Sale Limited Company • Arab Submarine Cables Company • Aqalat Company • Viva Bahrain Company	Inside and outside the Kingdom	• Unlisted company • Unlisted company • Unlisted company • Unlisted company • Unlisted company
Hamza bin Othman Khushaim	• Al Rajhi Bank • Dallah Healthcare Holding Company • Hassana Investment Company	Inside the Kingdom	• Listed joint stock company • Listed joint stock company • Unlisted company			
Raid bin Abdullah Al Tamimi	• Al Rajhi Bank • Cooperative Insurance Company • Najm for Insurance Services • National Medical Care Company	Inside the Kingdom	• Listed joint stock company • Listed joint stock company • Unlisted company • Listed joint stock company	• Waseel Electronic Information Transfer • Cooperative Insurance Company • Al Tawunyah Real Esatet Company	Inside the Kingdom	• Unlisted company • Listed joint stock company • Unlisted company
Abdullatif bin Ali Al Seif	• Al Rajhi Bank • Arabian Cement • Al Ra'idah Investment Company	Inside the Kingdom	• Listed joint stock company • Listed joint stock company • Unlisted company	• HSBC Saudi Arabia • Executive Director – Vision Combined Limited Company	Inside the Kingdom	• Unlisted company • Limited liability company

Composition of the Board and classification of its members, as Executive Directors, Non-Executive Directors, or Independent Directors

According to the definitions of Article 2 of the Corporate Governance Regulations issued by CMA, Board members are classified as follows:

No.	Member name	Membership classification (Executive/Non-Executive/Independent)
1.	Abdullah bin Sulaiman Al Rajhi	Non-Executive
2.	Salah bin Ali Aba Alkhail	Non-Executive
3.	Abdulaziz bin Khaled Al Ghefaily	Non-Executive
4.	Bader bin Mohamed Al Rajhi	Non-Executive
5.	Khaled bin Abdulrahman Al Qwaiz	Non-Executive
6.	Alaa bin Shakib Al Jabiri	Independent
7.	Ibrahim bin Fahad Al Ghofaily	Independent
8.	Amin bin Fahad Al Shiddi	Non-Executive
9.	Hamza bin Othman Khushaim	Non-Executive
10.	Raid bin Abdullah Al Tamimi	Independent
11.	Abdullatif bin Ali Al Seif	Independent

Committees of the Board of Directors

The functions and responsibilities of the Committees are laid down in internal guidelines and regulatory requirements. The membership term is three years which ends with the term of the Board. The Board of Directors has the authority to appoint, reappoint or terminate any member of the Committees. The Committees submit their recommendations and the minutes of meetings to the Board of Directors.

A brief description of ARB Committees' competences and functions is given below:

Executive Committee

The Executive Committee (ExCom), headed by the Chairman of the Board of Directors, carries out all the functions and authorities the Bank entrusts it with, including: assuming the responsibility for all businesses of Al Rajhi Bank, taking the quick decisions with respect to urgent matters and issues related to the business of the Bank. Also, ExCom will be responsible for approving all credit facilities exceeding the authorities of the Credit Committee, approving the real estate guarantees documented for default facilities, approving the contracts exceeding the powers of the Committees operating in the Bank and the CEO within limits of the approved budget and within powers determined by the Board of Directors.

The Committee held 12 meetings in 2018 as follows:

Meeting	Date	Member name				
		Abdullah bin Sulaiman Al Rajhi Chairman	Salah bin Ali Aba Alkhail member	Abdulaziz bin Khaled Al Ghefaily member	Alaa bin Shakib Al Jabri member	Hamza bin Othman Khushaim member
1.	4 February 2018	✓	✓	✓	✓	✓
2.	15 February 2018	✓	✓	✓	×	✓
3.	25 February 2018	✓	✓	✓	✓	✓
4.	25 March 2018	✓	✓	✓	✓	✓
5.	9 April 2018	✓	×	✓	✓	✓
6.	14 May 2018	✓	✓	✓	✓	✓
7.	24 June 2018	✓	✓	✓	✓	✓
8.	17 July 2018	✓	✓	✓	✓	✓
9.	22 October 2018	✓	✓	✓	✓	✓
10.	19 November 2018	✓	✓	✓	✓	✓
11.	3 December 2018	✓	✓	✓	×	✓
12.	20 December 2018	✓	✓	✓	✓	✓

Nominations and Compensations Committee

The main purpose of the Nominations and Compensations Committee include recommending the selection of Board members, Committee members, and Senior Executives to Board of Directors, preparing description of abilities and qualifications required for BoD membership, assessing the effectiveness and efficiency of BoD and High Management, compliance of the Bank with the internal incentive schemes, and rules of incentive practices issued by SAMA, principles and criteria of compensations, in the way best achieves the interests of depositors, shareholders and Bank's strategic objectives.

The Committee held two meetings during 2018 as follows:

Meeting	Date	Member name			
		Alaa bin Shakib Al Jabri Chairman	Abdulaziz bin Khaled Al Ghefaily member	Khaled bin Abdulrahman Al Qwaiz member	Raid bin Abdullah Al Tamimi member
1.	13 May 2018	✓	✓	✓	✓
2.	19 November 2018	✓	✓	✓	✓

Governance Committee

The main purpose of Governance Committee includes the annual review of Board of Directors structure and Board Committees, and governance framework in the Bank, updating policies related to BoD and Board members, Bank's governance and conflict of interests, supporting and maintaining the application of the highest standards of corporate governance issued by SAMA and Corporate Governance Regulations issued by CMA, in addition to following up the application of Governance Manual and its appendixes, Bank's matrix of authorities, and following up the works of Management Committees.

The Committee held four meetings during 2018 as follows:

		Member name		
Meeting	Date	Salah bin Ali Aba Alkhail Chairman	Ibrahim Fahad Al Ghefaily member	Raid bin Abdullah Al Tamimi member
1.	14 February 2018	✓	✓	✓
2.	17 May 2018	✓	✓	✓
3.	3 September 2018	✓	✓	✓
4.	13 December 2018	✓	✓	✓

Audit and Compliance Committee

Audit and Compliance Committee comprise of five members – two members from the Bank's Board of Directors and three non-executive members. The Committee's responsibilities includes reviewing the Bank's Financial Statements, accounting and regulatory policies, supervising the activities of internal audit group, external Auditors and compliance group. The Committee held (10) ten meetings during 2018.

The below table shows that the Committee' members attended most scheduled meetings during 2018:

		Member name				
Meeting	Date	Amin bin Fahad Al-Shadi – Chairman	Abdul Latif bin Ali Al Seif	Abdullah bin Ali Al-Muneef	Faraj bin Mansour Abuthnin	Walid bin Abdullah Tamirik
1.	30 January 2018	✓	✓	✓	✓	✓
2.	15 February 2018	✓	✓	✓	✓	✓
3.	11 March 2018	✓	✓	✓	✓	✓
4.	23 April 2018	✓	✓	×	×	✓
5.	20 May 2018	✓	×	✓	✓	✓
6.	19 July 2018	✓	✓	✓	✓	✓
7.	6 September 2018	✓	✓	✓	✓	✓
8.	18 October 2018	✓	✓	✓	✓	✓
9.	22 November 2018	✓	✓	✓	✓	✓
10.	23 December 2018	✓	✓	✓	✓	✓

The Committee during its meetings discussed and considered the agenda within its annual plan as approved by the Board of Directors in addition to other related matters, which includes:

- Discussion of the annual Financial Statements with external auditors as of 31 December 2017.
- Discussion and approval of internal audit plan and compliance group programme for the year 2018.
- Discussed internal audit and compliance groups' quarterly performance.
- Review the Bank's quarterly Financial Statements.
- Review the level of implementation of recommendations reported by Internal Audit Group, external Auditors and regulatory supervisory team level of efforts made by the Bank's management to implement such recommendations.
- Recommending for the appointment of the external auditors for the year 2018.
- Review the Bank's policies and those policies pertain to overseas branches (Kuwait and Jordan) including reports issued by respective regulators.
- Discussion of the impact of IFRS 9 on the Bank.
- Review the Banks' legal cases that has an impact on the Bank's Financial Statements.

Board Committees members (Non-Board members):

No.	Name	Committee memberships	Current positions	Previous positions	Qualifications	Experience
1.	Abdullah bin Ali Al Maneef	Audit and Compliance Committee	• Member of Audit and Compliance Committee – Al Rajhi Bank • Member of Shura Council • Member of the Arab Parliament	• Chief Executive Officer – Al Muneef Financial and Management Consultancy Office • Advisor – National Guard • Director General of Finance and Administration Affairs – National Guard • Head of Accounting Department, King Saud University • Associate Professor of Accounting Department, King Saud University • Executive Director of Financial and Administrative Affairs – King Faisal Specialist Hospital • Head of Accounting Association, King Saud University • Assistant Professor of Accounting Department, King Saud University • Lecturer at Accounting Department, King Saud University	• Bachelor of Accounting – King Saud University • Master Degree in Accounting – University of Southern California, USA • PhD in Accounting – University of South Carolina, USA	Held many academic, leading and advisory positions in financial and management fields

No.	Name	Committee memberships	Current positions	Previous positions	Qualifications	Experience
2.	Farraj Bin Mansour Abuthnain	Audit and Compliance Committee	• Member of Audit and Compliance Committee – Al Rajhi Bank • Board Member – Astra Industrial Group • Board Member of Petrochem • Member of Audit Committee – Almarai Company	• Director of Loan Department – Industrial Development Fund • Member of the Project Loan Committee – Industrial Development Fund • Member of the Industrial Projects Performance Audit Committee – Industrial Development Fund • Senior Vice President of Finance and Investment – National Industrialisation Company (Tasnee)	• Bachelor of Industrial Management – University of Wisconsin – Milwaukee	Held many leading positions in the Saudi Industrial Development Fund
3.	Walid bin Abdullah Tmairak	Audit and Compliance Committee	• Member of Audit and Compliance Committee – Al Rajhi Bank • Member of Audit Committee – Ewaan Global Residential Company • Member of Advisory Committee of College of Management and Economics – King Abdulaziz University • Tmairak is a Chartered Accountant	• Arthur Andersen & Co • Ernst & Young	• Bachelor of Accounting – King Abdulaziz University • Fellowship of SOCPA	Has more than 25 years of experience in accounting, auditing and economics

Board Risk Management Committee

This Committee was formed after the election of BoD in the current tenure. The purpose of BRMC is to assist Board of Directors in management of credit, market, operational, business, investment and financial businesses and reputational risks. Additionally, it includes the provision of consultation to the BoD with respect to the risk appetite and risk strategy, Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Plan (ILAAP), credit policies, liquidity risk and market risk management policies, dealing with finance and liquidity limits. The Committee is also responsible for approving losses arising out of banking operations, fraud, system errors and compensation of customers that falls beyond the powers of the Risk Management Committee.

The Committee held seven meetings during 2018 as follows:

Meeting	Date	Khaled bin Abdulrahman Al Qwaiz Chairman	Alaa bin Shakib Al Jabri member	Hamza bin Othman Khushaim member
1.	11 February 2018	✓	✓	✓
2.	19 March 2018	✓	✓	✓
3.	9 April 2018	✓	✓	✓
4.	13 May 2018	✓	✓	✓
5.	18 July 2018	✓	✓	✓
6.	23 October 2018	✓	✓	✓
7.	16 December 2018	✓	✓	✓

Procedure taken by the Board to inform its members, Non-Executive Directors in particular, of the shareholders' suggestions and remarks on the Company and its performance.

ARB registers shareholders' suggestions provided through the General Assembly and notifies the Chairman of any suggestions to be presented at the next Board meeting. In addition, there is an email address published on the Bank and Tadawul websites dedicated to receive comments and suggestions of shareholders which are delivered directly to the Board Secretary who presents same to the Board.

Performance of the Board and Committees

The Bank has an integrated mechanism with time frames to evaluate the work of the Board of Directors and its supporting committees. There is also a mechanism to use the findings of the evaluation. These are made use of in the nomination process for membership of the Board and Committees and in ascertaining future training needs.

The methods used by the Board to evaluate BoD, Board Committees and their members' performance:

Governance Committee evaluates performance of Board, Board Committees and Board members via specific surveys on three different levels. Evaluation is conducted based on BoD terms of reference specified in ARB's Governance Manual. Evaluation of Board Committees and Audit and Compliance Committee is conducted based on its approved charters. Evaluation of Board and Board Committee members is conducted by the respective members themselves. After that, Governance Committee raises the annual assessment report to Board of Directors to be approved. Finally, a copy of the final report is provided to Nominations and Compensations Committee.

Remuneration and compensation of the Board members and Executive management

The Bank pays the expenses and remuneration to Board members including the compensation they are entitled for attendance at Board meetings. It also pays salaries, remuneration and compensations to Senior Executives according to their contracts.

a) Summary of significant items of policy for remunerations of BoD and Board Committees and executive management members

1. Board of Directors remuneration and compensations.

- ARB's Board members will receive a fixed annual remuneration of SAR 400,000 for their membership in ARB's Board of Directors and their participation in its activities.
- Board member will receive an attendance fee of SAR 5,000 for his attendance of each Board meeting either personally or through electronic remote channels.
- ARB shall compensate Board members for their actual expenses paid to attend the Board meetings including travelling and accommodation expenses.

2. Remuneration and compensations of BoD members for their membership in Board Committees:

- ARB's Board members will not receive an additional remuneration for their membership in ARB's Board Committees as the annual remuneration will include any other remuneration paid for the Director for his participation in any Board Committee.
- Board member will receive an attendance fee of SAR 5,000 for his attendance of each Board Committee either personally or through electronic remote channels.
- ARB shall compensate Board members for their actual expenses paid to attend the Committees' meetings including travelling and accommodation expenses.

3. Remuneration and compensations of Audit and Compliance Committee members:

- ARB's Audit and Compliance Committee members, either from inside or outside the Board, will receive a fixed annual remuneration of SAR 150,000 for their membership in the Committee and his participation in its activities provided that annual remuneration for Audit and Compliance Committee member from inside the Board shall not exceed the annual limits set by Policy for Remuneration and Compensation approved by ARB's General Assembly.
- Audit and Compliance Committee members will receive an attendance fee of SAR 5,000 for his attendance of each Committee meeting either personally or through electronic remote channels.
- ARB shall compensate Committee members for their actual expenses paid to attend the Board meetings including travelling and accommodation expenses.

4. Granting shares:

- ARB does not grant shares as remuneration for any Board, Board Committee and Audit Compliance Committee members.

5. Allocation and payment mechanisms for remuneration and compensation:

- Remuneration and compensation for Board members and Non-Board members will be allocated annually based on recommendation from Nomination and Compensation Committee and approval of Board, amounts will then be presented to the next General Assembly meeting for ratification.
- Remuneration can vary to reflect the Director's experience, independence and number of attended meetings among other criteria.
- Attendance fees are paid annually to Directors based on their attendance sheets for Board, Board Committees, and Audit and Compliance Committee meetings.
- Payments are done through bank transfers, cheques, or any other methods, and Directors are informed of details through relevant departments.
- Remuneration and Compensations paid to directors should not exceed SAR 500,000 annually, payment of any additional due amounts will be stopped. Total amounts paid to Directors should not exceed 5% of total net profits.

6. Remuneration and compensation of Senior Executives:

The role of the Board of Directors includes, but not limited to, the following:

- The Board of Directors is responsible for approving the overall design and oversight of all aspects of the remuneration system and shall not delegate this responsibility to management.
- Despite the establishment of the Board Nomination and Compensation Committee, the Board of Directors shall be ultimately responsible for promoting effective governance and sound remuneration practices.
- The Board of Directors shall review and, if satisfied, approve the Remuneration Policy and any of its subsequent revision/updates, on the recommendation of the Nomination and Compensation Committee, taking into account, inter-alia, the Rules on Compensation Practices of May 2010 and any future updates or revisions, issued by Saudi Arabian Monetary Agency (SAMA).
- The Board of Directors shall review and, if satisfied, approve the recommendations of the Nomination and Compensation Committee regarding the level of remuneration of the key executives. The key executives for this purpose will include senior managers and all those executives whose appointments are subject to no objection by SAMA or other regulators.
- The Board of Directors shall ensure that the Management has put in place elaborate systems and procedures and an effective oversight mechanism to ensure compliance of the SAMA Rules on Compensation Practices and the FSB Principles and Standards.

7. Structure of remuneration and compensation granted to Senior Executives:

- The Remuneration structures for various levels of employees should be designed to promote effective risk management and achieve remuneration and compensation objectives.
- The mix of forms of remuneration should vary depending on the employees position and role, and may include cash, equity and other forms of compensation.
- The proportion of fixed and variable components of remuneration for different business lines may be determined taking into account the nature and level of responsibilities of an employee, business area in which he/she is working and the overall philosophy of the Remuneration Policy of the Bank. The Bank should ensure that the total variable remuneration does not limit its ability to strengthen the capital base.
- The remuneration structure of employees working in control functions such as risk management, compliance, internal control, etc. Should be designed to ensure objectivity and independence of these functions. In this regard, it should be ensured that performance management and determination of remuneration of such employees are not dealt with by any person working in/associated with the business areas monitored by them.
- The determination of the bonus pool should take into account the overall performance of the Bank whereas its distribution to individual employees should be based on performance of the employees as well as that of the business unit or division in which he/she is working. There should, however, be no guaranteed minimum bonuses and similar other payments, other than an employee's salary, that are not based on performance.
- The Bank may as part of the Remuneration Policy, provide deferment of a reasonable proportion of performance bonus with a minimum vesting period of not less than three (3) years. The proportion of the bonus to be deferred and the vesting period should be determined based on the nature of the business, its risks and the activities of the concerned employee.

- Where the Remuneration Policy provides for payment of a part of the compensation in shares, it should also lay down the criteria to be used for determining the value for allocation of shares. Furthermore, the payouts in shares should be subject to an appropriate share retention policy.
- Joining bonuses are not permitted, unless clearly aligned with long-term value creation and prudent risk taking. Any such payments should be related to performance achieved over time and designed in a way that does not reward failure. Joining bonuses should be at least linked to successful completion of probation period and where possible, deferring the joining bonuses, on terms similar to the deferred bonuses foregone from the previous company.
- The Bank should demand from their employees that they commit themselves not to use personal hedging strategies or remunerations and liability-related insurance to undermine the risk alignment effects embedded in their remuneration and compensation arrangements.

The Bank confirms that there are no material deviations between granted remunerations and applicable remunerations policy.

b) Remuneration and compensation paid to members of BoD, Board Committees, Audit and Compliance Committee in 2018:

		Board meetings		BACC meetings		ExCom meetings		NCC meetings		Governance Committee meetings		BRMC		Special Committees		Annual Bonus	Total	Total paid to the member as per the Policy
No.	Name	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount		(SAR)	(SAR)
1.	Abdullah bin Sulaiman Al Rajhi	7	35,000	–	–	12	60.000	–	–	–	–	–	–	–	–	400.000	495.000	495.000
2.	Saleh bin Ali Abdullah Aba Alkhail	7	35,000	–	–	11	55.000	–	–	4	20.000	–	–	–	–	400.000	510.000	500.000
3.	Abdulaziz bin Khaled Al Ghefaily	7	35,000	–	–	12	60.000	2	10.000	–	–	–	–	–	–	400.000	505.000	500.000
4.	Khalid bin Abdulrahman Al Quaiz	7	35,000	–	–	–	–	2	10.000	–	–	6	30.000	–	–	400.000	475.000	475.000
5.	Bader bin Mohammed Al Rajhi	7	35,000	–	–	–	–	–	–	–	–	–	–	3	15.000	400.000	450.000	450.000
6.	Alaa bin Shakib Al Jabri	7	35,000	–	–	10	50.000	2	10.000	–	–	6	30.000	4	20.000	400.000	545.000	500.000
7.	Ibrahim bin Fahad Al Ghefaily	7	35,000	–	–	–	–	–	–	4	20.000	–	–	–	–	400.000	455.000	455.000
8.	Raid bin Abdullah Al Tamimi	7	35,000	–	–	–	–	2	10.000	4	20.000	–	–	–	–	400.000	465.000	465.000
9.	Hamza bin Othman Khushaim	7	35,000	–	–	12	60.000	–	–	–	–	6	30.000	7	35.000	400.000	560.000	500.000
10.	Ameen bin Fahad Al Sheddi	7	35,000	11	55,000	–	–	–	–	–	–	–	–	4	20.000	550.000	660.000	500.000
11.	Abdullatif bin Ali Al Saif	7	35,000	10	50,000	–	–	–	–	–	–	–	–	3	15.000	550.000	650.000	500.000
12.	Abdullah bin Ali bin Ali Al Manif	–	–	10	50,000	–	–	–	–	–	–	–	–	–	–	150.000	200.000	200.000
13.	Waleed bin Abdullah Tmairak	–	–	11	55,000	–	–	–	–	–	–	–	–	–	–	150.000	205.000	205.000
14.	Faraj bin Mansour Abu Thnain	–	–	10	50,000	–	–	–	–	–	–	–	–	–	–	150.000	200.000	200.000
	Total	**77**	**385.000**	**52**	**260.000**	**57**	**285.000**	**8**	**40.000**	**12**	**60.000**	**18**	**90.000**	**21**	**105.000**	**5.150.000**	**6.375.000**	**5.945.000**

c) Remunerations and compensations paid to five Senior Executives who have received highest remunerations from the Company including CEO and CFO in 2018.

Description	Five Senior Executives (CEO and CFO included)
Salaries and compensations	9,765,000
Allowances	5,085,744
Periodic and annual rewards	35,228,250
Incentives schemes	–
Any other in-kind compensations or benefits paid annually or monthly	–
Total	**50,078,994**

Any penalty, precautionary measure, or precautionary legal binding imposed on the Bank by CMA or any other supervisory, regulatory, judicial authority

Fines imposed by CMA: NIL

Fines imposed by SAMA:

Violation	Fiscal year 2017		**Fiscal year 2018**	
Violations of	Number of resolutions	Total amount of fines in Saudi Riyal	**Number of resolutions**	**Total amount of fines in Saudi Riyal**
SAMA supervisory instructions	43	15,864,000	**34**	**2,315,000**
SAMA instructions related to customer protection	1	10,000	**–**	**–**
SAMA instructions related to due-diligence	–	–	**–**	**–**
SAMA instructions related to service level of ATMs and POSs	2	227,377	**–**	**–**
SAMA instructions related to due diligence in AML and TF	1	120,000	**3**	**450,000**

Fines imposed by Ministry of Municipal and Rural Affairs:

Violation	Fiscal year 2017	Fiscal year 2018
	Total amount of fines in Saudi Riyal	Total amount of fines in Saudi Riyal
Increase of building area percentage for ATMs, lack of setbacks, visible advertising posters on branches facades and ATMs, and non-existence of licenses for some bank's locations	2,044,500	**1,588,000**

Internal control

The Bank's Management is responsible for designing an appropriate internal control system through the Board of directors direct supervision to ensure availability of effective controls in mitigating those risks may impact achieving the Bank's strategic and operating objectives. The Bank's executive management has adopted a comprehensive internal control system aligned with SAMA regulatory requirements.

The following are some of the key components of the Bank's internal control system:

- The Bank has developed and approved a governance framework, which is the mandate for preparing and updates controls requirements including defining roles and responsibilities at the Bank's different levels including Board of Directors and Board committees and other committees.
- The Bank has group of policies and procedures that govern its business activities, which subject to a periodic updates to ensure it's completeness, efficiency and appropriateness to Bank's activities.
- Most of the Bank's operating activities carried out automatically through different core system, which minimizes manual errors and fraud incidences opportunities.
- Oversight on the Bank's activities and important decisions taken through committees established to ensure that the Bank's activities carried out appropriately in order to safeguard the Bank's assets.
- The Bank has dedicated specialized functions on evaluating the effectiveness of the Bank's internal control systems, which includes internal audit, compliance, anti-fraud and other risks management functions.
- Existence of an effective Audit and Compliance Committee supervising internal and External Auditors activities in order to support and promote their independence. This Committee receives regular and periodic reports on audits carried out on different functions within the Bank.
- Regular reviews on the efficiency and adequacy of the internal control system is carried out by Internal Audit based on an annual plan approved by the Audit and Compliance Committee beside reviews of effectiveness of internal control by the External Auditors and supervisory reviews conducted by the SAMA.

Annual review of internal control procedures

During 2018, the Bank explored all possible efforts to ensure appropriateness and effectiveness internal control in order to be in line with the requirements of internal control issued by SAMA. Furthermore, the Bank's activities carried out during the year 2018, which included a review of effectiveness of internal controls systems in addition to existence of necessary tools, systems and procedures to identify, assessing and mitigating high risks being faced by the Bank. As a result, no material weaknesses have been identified negatively impacts appropriateness of internal control environment. Based on the outcome of assessment of the Bank's internal control effectiveness ,the Bank has an adequate internal control system that operates appropriately and being reviewed on a continues basis. It should be noted that despite of effective design and effectiveness, no absolute assurance can be provided on the effectiveness of internal control system.

Core Announcements

The following are the main Al Rajhi Bank announcements that have been published on the Saudi Stock Exchange (Tadawul) website during 2018:

No.	The announcements	Date
1.	Al Rajhi Bank announces the outcome of the settlements for Zakat claims with General Authority of Zakat & Tax (GAZT)	20 December 2018
2.	AL Rajhi Bank Announcement on the Relocation of its Principal Office	20 December 2018
3.	Al Rajhi Bank announces the appointment of the Deputy Chairman and the appointment of a Deputy Chief Executive Officer (CEO)	5 November 2018
4.	Al Rajhi Bank announces its interim financial results for the period ending on 30 September 2018 (nine months)	24 October 2018
5.	Al Rajhi Bank announces the interim financial results for the period ending on 30 June 2018 (six months)	26 July 2018
6.	Al Rajhi Bank announces the distribution of dividend for period first half of 2018	15 July 2018
7.	Clarifying announcement for Al Rajhi Bank announces the interim financial results for the period ending on 31 March 2018 (three months)	1 May 2018
8.	Al Rajhi Bank announces the interim financial results for the period ending on 31 March 2018 (three months)	1 May 2018
9.	Al Rajhi Bank announces its results of the 29th Ordinary General Meeting (Second meeting)	26 March 2018
10.	Al Rajhi Bank invites its shareholders to attend the 29th Ordinary General meeting (1st meeting) (reminder)	21 March 2018
11.	Al Rajhi Bank invites its shareholders to attend the 29th Ordinary General Meeting (1st meeting)	15 March 2018
12.	Al Rajhi Bank announces that the Board of Directors has recommended the distribution of dividend for period the second half of 2017	18 February 2018
13.	Al Rajhi Bank announces the annual financial results for the period ending on 31 December 2017 (twelve months)	11 February 2018

General Assembly

The Bank always adheres to the concerned Government regulations in all matters relating to Ordinary General Assembly and Extraordinary ones. All regulatory provisions are accompanied by sufficient information to enable shareholders to make their decisions.

Historical information of General Assembly meetings during the fiscal year:

No.	Name	Attendance record Ordinary AGM number 29 on 25 March 2018
1.	Abdullah bin Sulaiman Al Rajhi	✓
2.	Salah bin Ali Aba Alkhail	✓
3.	Alaa bin Shakib Aljabri	✓
4.	Khaled bin Abdulrahman Alqwaiz	✓
5.	Amin bin Fahad Alshiddi	✓
6.	Bader bin Mohammed Al Rajhi (Representative of Mohammed Abdulaziz Al Rajhi & Sons Investment Co.)	✓
7.	Abdullatif bin Ali Alseif (Representative of Public Pension Agency)	✓
8.	Hamza bin Othman Khushaim (Representative of GOSI)	✓
9.	Abdulaziz bin Khalid A Alghefaily	✓
10.	Raid bin Abdullah Al Tamimi	✓
11.	Ibrahim bin Fahad Alghefaily	✓

Bank's significant plans, decisions and the future expectations

ARB maintains its leading position in retail as its market share represents 36.4% of total retail loans granted in Q3 2018. The Bank intends to enhance its leadership in this sector by increasing finance portfolio in general and real estate finance in particular. The Bank intends to initiate investment in the latest technology to ensure providing the best banking services and products as well as expanding customer base by expanding branch network and electronic banking channels.

Bank's dividends distribution policy

The Bank distributes the specified annual net profits, after deduction of all general expenses and other costs and arranging the necessary provisions to confront doubtful debts, investment losses and urgent commitments for which the Board of Directors evaluates the risk level under the Banking Control Law and Saudi Arabian Monetary Authority (SAMA) directions as follows:

a. The due Zakat amounts scheduled to be paid by shareholders are calculated and the Bank pays such amounts to competent parties.
b. The Bank transfers not less than 25% of the remaining net profits to the following year after deducting the Zakat of the statutory reserve to ensure that the mentioned reserve becomes equal–at least–to the paid capital.
c. Of the remaining profits, not less than 5% of the paid capital after deducting the statutory reserves and Zakat to be distributed to shareholders according to recommendations of the Board of Directors and decisions of the General Assembly. If the percentage left from the profits due to shareholders is insufficient to pay the above-mentioned percentage, the shareholders may not claim to pay it during the next year(s) and the General Assembly may not decide to distribute a percentage of profit greater than the one proposed by the Board of Directors.
d. After allocating the amounts mentioned in items (a), (b) and (c); the remaining amount will be used according to the recommendation of the Board of Directors and the decision of the General Assembly.

Distribution of dividends

Profits distributed during the year	18 July 2018	Percentage of profits to be distributed at the end of the year	Total profits
Percentage of dividend to share book value	20	22.5	42.5
Total	**3,250,000**	**3,656,000.25**	**6,906,000.25**

Description of any interest, contractual papers and subscription rights of Board members and their relatives in Bank's shares or debit instruments:

No.	Name of beneficiary	Number of shares at beginning of year 2018	Ownership %	Number of shares at end of year 2018	Ownership %	Net change	% of change
1.	Abdullah bin Sulaiman Al Rajhi	35,221,483	2.167	35,221,483	2.167	–	0.00
2.	Salah bin Ali bin Abdullah Abal Khail	1,460,000	0.090	1,470,000	0.090	10,000	0.68
3.	GOSI	165,667,525	10.195	165,667,525	10.195	–	0.00
4.	Abdulaziz bin Khaled bin Ali Al Ghefaily	–	0.000	–	0.000	–	0.00
5.	Mohammed Abdulaziz Al Rajhi & Sons Co. for investment	33,343,641	2.052	33,343,641	2.052	–	0.00
6.	Bader bin Mohammed Al Rajhi, (representative of Mohammed Abdulaziz Al Rajhi & Sons Co. for investment)	11,207	0.001	11,207	0.001	–	0.00
7.	Khaled bin Abdulrahman Al Qoaiz	1,000	0.000	1,000	0.000	–	0.00
8.	Alaa bin Shakib Al Jabiri	6,000	0.000	6,000	0.000	–	0.00
9.	Ibrahim bin Fahad ALGhofaily	459,981	0.028	459,981	0.028	–	0.00
10.	Raeed bin Abdullah AlTamimi	1,000	0.000	1,000	0.000	–	0.00
11.	Abdulatif bin Ali AlSeif Representative of Public Pension Agency	40,000	0.002	40,000	0.002	–	0.00
12.	Hamzah bin Othman Khushaim representative of GOSI	–	0.000	–	0.000	–	0.00
13.	Ameen bin Fahad AlShddi	–	0.000	–	0.000	–	0.00

Description of any interest, contractual papers and subscription rights of Senior Executives and their relatives in Bank's shares or debit instruments.

No.	Name of beneficiary	Number of shares (at beginning of 2018)	Ownership %	Number of shares (at end of 2018)	Ownership %	Net Change	% of change
1.	Abdullah bin Ali Alkhalifa	2,455	0.000	10,228	0.001	7,773	316.62
2.	Christopher Mark Macleen	2,209	0.000	9,204	0.001	6,995	316.66

Board sessions and attendance

The Board of Directors held seven sessions during 2018:

No.	Member name	Number of meetings (7)						
		First meeting 25 February 2018	Second meeting 25 March 2018	Third meeting 14 May 2018	Fourth meeting 17 July 2018	Fifth meeting 22 October 2018	Sixth meeting 23 October 2018	Seventh meeting 20 December 2018
1.	Abdullah bin Sulaiman Al Rajhi	✓	✓	✓	✓	✓	✓	✓
2.	Salah bin Ali Aba Alkhail	✓	✓	✓	✓	✓	✓	✓
3.	Abdulaziz bin Khaled Al Ghefaily	✓	✓	✓	✓	✓	✓	✓
4.	Bader bin Mohamed Al Rajhi	✓	✓	✓	✓	✓	✓	✓
5.	Khaled bin Abdulrahman Al Qwaiz	✓	✓	✓	✓	✓	✓	✓
6.	Alaa bin Shakib Al Jabri	✓	✓	✓	✓	✓	✓	✓
7.	Ibrahim Fahad Al-Ghefaily	✓	✓	✓	✓	✓	✓	✓
8.	Amin bin Fahad Al Shiddi	✓	✓	✓	✓	✓	✓	✓
9.	Hamza bin Othman Khushaim	✓	✓	✓	✓	✓	✓	✓
10.	Raid bin Abdullah Al-Tamimi	✓	✓	✓	✓	✓	✓	✓
11.	Abdullatif bin Ali Al Seif	✓	✓	✓	✓	✓	✓	✓

Bank requests for shareholders' register

No.	Request date	Request reasons
1.	1 January 2018	Updating shareholders records
2.	3 January 2018	Updating shareholders records
3.	5 February /2018	Updating shareholders records
4.	1 March 2018	Updating shareholders records
5.	22 March 2018	Preparing to Extraordinary General Assembly
6.	27 March 2018	Dividend distribution
7.	3 April 2018	Updating shareholders records
8.	1 May 2018	Updating shareholders records
9.	5 June 2018	Updating shareholders records
10.	2 July 2018	Updating shareholders records
11.	18 July 2018	Preparing a file for shareholders eligible for dividend of H1 2018
12.	3 September 2018	Updating shareholders records
13.	4 October 2018	Updating shareholders records
14.	4 November 2018	Updating shareholders records
15.	5 December 2018	Updating shareholders records

Related party transactions

In the ordinary course of business, the Bank transacts business with related parties. The related party transactions are governed by the regulations issued by the regulators in the Kingdom of Saudi Arabia. The Bank has disclosed such transactions in Note 30 of its closing Financial Statements for 2018. The nature and balances resulting from such transactions for the year ended 31 December 2018 are as follows (all amounts are in thousand Saudi Riyals).

Related party	Balances resulting from the transaction
Loans and advance payments	10,312,909
Potential obligations	6,929,817
Current accounts	77,788
Contributions receivable	252,706
Debtors against liabilities	144,640
Bank's balances	274,705
Income from finance and other income	139,496
Mudaraba fees	68,272
Employees' salaries and benefits (air tickets)	4,142
Rental expenses	2,238
Contributions – policies written	1,059,392
Incurred and reported claims during the year	900,207
Paid claims	905,840
Board members remunerations	5,945
Short-term benefits	85,579
End of service provision	11,536

Information of 2018 transactions and contracts in which the Bank is a party and any of Board members or senior executives, or any of their related parties has an interest:

Commercial and services contracts
(Figures are in SAR)

No.	Related party	Party with direct indirect interest	Position in ARB	Type of relation with related party	Relation type	Period	Conditions	Transactions/ contracts amount SAR
1.	Fursan Travel & Tourism Co.	Abdullah bin Sulaiman Al Rajhi	Board member	Owned by Board member	Travel tickets for employees contract	Pricing contract and annually renewable	Standard conditions without preferences	4,141,611
2.	STC	Amin bin Fahad Alshiddi	Board member	Senior executive in the company	Integrated communications services and solutions contract – SMS services	Pricing contract for two years	Standard conditions without preferences	36,708,895
3.	STC	Amin bin Fahad Alshiddi	Board member	Senior executive in the company	Integrated communications services and solutions contract – rented lines	Pricing contract for three years	Standard conditions without preferences	55,450,171
4.	STC	Amin bin Fahad Alshiddi	Board member	Senior executive in the company	Contract and services for connecting PoS devices to network	Pricing contract and annually renewable	Standard conditions without preferences	28,208,748
5.	Arabian Internet and Telecom Services (STC Solutions)	Amin bin Fahad Alshiddi	Board member	He has an influence on company's decisions as he is a senior executive in the parent company (STC)	Internet services contract	Annual contract	Standard conditions without preferences	1,512,000
6.	Arabian Internet and Telecom Services (STC Solutions)	Amin bin Fahad Alshiddi	Board member	He has an influence on company's decisions as he is a senior executive in the parent company (STC)	Supply, instalation and maintenance of devices Dell-EMC contract	4 years	Standard conditions without preferences	75,111,584
7.	Global Beverage Holding Company	Bader bin Mohammed Al Rajhi	Board member	Chairman of the company's Board of Directors	Bottled water supply services	Annual contract (as per the best quotation)	Standard conditions without preferences	299,987

Rental contracts
(Figures are in SAR)

No.	Related party	Party with direct indirect interest	Position in ARB	Type of relation with related party	Relation type	Period	Conditions	Transactions/ contracts amount SAR
1.	Panda Retail Co.	Abdulaziz bin Khaled Ali Alghefaily	Board member	A Board member in the company	ATM site rent contract	5 years – annually renewable for similar period	Rent contract	45,000
2.	Panda Retail Co.	Abdulaziz bin Khaled Ali Alghefaily	Board member	A Board member in the company	ATM site rent contract	5 years – annually renewable for similar period	Rent contract	25,000
3.	Panda Retail Co.	Abdulaziz bin Khaled Ali Alghefaily	Board member	A Board member in the company	ATM site rent contract	5 years – annually renewable for similar period	Rent contract	35,000
4.	Panda Retail Co.	Abdulaziz bin Khaled Ali Alghefaily	Board member	A Board member in the company	ATM site rent contract	5 years – annually renewable for similar period	Rent contract	40,000
5.	Mohammed Abdulaziz Al Rajhi & Sons Investment Co.	Bader bin Mohammed Abdulaziz Al Rajhi	Board member	A Board member in the company	Southern region management building rent contract	10 years – annually renewable for similar period	Rent contract	245,542
6.	Mohammed Abdulaziz Al Rajhi & Sons Investment Co.	Bader bin Mohammed Abdulaziz Al Rajhi	Board member	A Board member in the company	Contract for renting direct sales office in Abha	9 years – annually renewable for similar period	Rent contract	40,000
7.	Mohammed Abdulaziz Al Rajhi & Sons Investment Co.	Bader bin Mohammed Abdulaziz Al Rajhi	Board member	A Board member in the company	ATM site rent contract	5 years – annually renewable for similar period	Rent contract	35,000
8.	Abdullah bin Sulaiman Al Rajhi	–	–	A Board member in the Bank	ATM site rent contract	3 years – annually renewable for similar period	Rent contract	90,000
9.	Abdullah bin Sulaiman Al Rajhi	–	–	A Board member in the Bank	Albatha'a exchange & remittance centre rent contract	3 years – annually renewable for similar period	Rent contract	550,000
10.	STC	Amin bin Fahad Alshiddi	Board member	A senior executive in the company	ATM site rent contract	2 years – annually renewable for similar period	Rent contract	30,000
11.	STC	Amin bin Fahad Alshiddi	Board member	A senior executive in the company	ATM site rent contract	3 years – annually renewable for similar period	Rent contract	30,000

Insurance Contracts
(Figures are in SAR)

No.	Related party	Party with direct indirect interest	Position in ARB	Type of relation with related party	Relation type	Period	Conditions	Transactions/ contracts amount SAR
1.	Al Rajhi Co. for Cooperative Insurance	Abdullah bin Sulaiman Abdulaziz Al Rajhi	Board member	A Board member in the company	Comprehensive insurance for banks, properties, work disruption, managers and executives	Annual contracts	Standard conditions without preferences	7,665,921
2.	Al Rajhi Co. for Cooperative Insurance	Abdullah bin Sulaiman Abdulaziz Al Rajhi	Board member	A Board member in the company	Comprehensive insurance for cars	Annual contracts	No preferred conditions or benefits	1,051,726,079

Regulatory payments

The Bank's regulatory payments during the year consisted of Zakat due by shareholders, taxes, amounts paid to the General Organisation for Social Insurance (GOSI), Visa and Passport costs etc.

Details of payments made during the year are given below:

	2018			
Description	Paid	Payable until the end of the financial period (not paid)	Brief description	Reasons
Zakat	1,081,054,185	–	Paid	–
Tax	29,181,464.05	–	Paid	–
VAT	110,120,152.12	–	Paid	
GOSI	247,939,702.00	–	Paid	–
Visa and Passports costs	828,704.00	–	Paid	–
Ministry of Labour Fees	6,028,289.00	–	Paid	–

There were no amounts due for the financial period but unpaid.

Employee Benefits and Plans

The Bank provides its employees with a number of benefits which are paid during or at the end of their service according to Saudi Labour Law and Bank policies. The provision for employees' end of service benefits is accrued using accrual valuation according to Saudi Labour Law and local regulatory requirements. The provision for end of service benefits stood at SAR 848 Mn.

Al Rajhi Bank also grants free shares to its senior employees and those of its subsidiary companies who are seen as valuable human assets. This helps to ensure the long-term commitment of these employees. Granting of shares is based on the approval of the Board of Directors upon their commendation of the Nomination and Remuneration Committee.

Books of Accounts

The Consolidated Financial Statements are prepared in accordance with the Accounting Standards for Financial Institutions promulgated by SAMA and the International Financial Reporting Standards (IFRS). The Bank also prepares its Consolidated Financial Statements to comply with the requirements of Banking Control Law and the Companies Law in the Kingdom of Saudi Arabia, and the Bank's Articles of Association.

Basel 3

Certain qualitative and quantitative disclosures are published by ARB. These disclosures are available in the Annual Basel Report and are available on the ARB website (www.alrajhibank.com.sa).

Auditors

During the Ordinary General Assembly of shareholders, PricewaterhouseCoopers and KPMG Al Fozan and Partners were designated as Auditors of the Bank's accounts for the fiscal year 2018. The next General Assembly will designate the External Auditors for the fiscal year of 2019, based on a recommendation from the Audit and Compliance Committee.

The Board of Directors has not recommended replacing the External Auditors before the end of their contract.

Acknowledgment of Board of Directors

According to the available information, Auditor's report, and current market data, the Board of Directors acknowledge the following:

- Accounting records have been prepared properly.
- Internal control system has been prepared based on proper fundamentals and executed efficiently.
- There is no doubt about the Bank's ability to continue its business.

Conclusion

The Board of Directors is pleased to express their pride in the positive results achieved by the Bank in 2018. On this occasion, the Board would like to convey its appreciation to the Custodian of the Two Holy Mosques, Crown Prince, and our wise Government.

The Board would also like to express its sincere appreciation to the Ministry of Finance, Ministry of Commerce & Investment, Saudi Arabian Monetary Authority (SAMA) and the Capital Market Authority (CMA) for their consistent cooperation and support in developing the banking sector, which manifests itself in the reinforcement and growth of the national economy.

The Board would also like to seize this opportunity to express its gratitude and appreciation to the honorable shareholders, customers and correspondents for their support, trust and cooperation, which has led to the achievement of further advancement and prosperity for the Bank. Last but not least, the Board would like to present its sincere appreciation to all the Bank employees for their loyal efforts and devotion in accomplishing their obligations and tasks. In addition, the Bank extends its appreciation to Sharia Board members for their loyal efforts and effective contributions to the Bank's business.

Financial Reports

Independent Auditors' Report

KPMG Al Fozan & Partners
Certified Public Accountants

Independent auditors' report on the audit of the consolidated financial statements to the shareholders of Al Rajhi Banking and Investment Corporation (a Saudi Joint Stock Company)

Opinion

We have audited the consolidated financial statements of Al Rajhi Banking and Investment Corporation ("the Bank") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended 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.

Basis for opinion

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

Key audit matters

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

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Key audit matter	How our audit addressed the key audit matter
Impairment of financing As at 31 December 2018, the gross financing of the Group amounted to SAR 241.9 billion against which an impairment allowance of SAR 7.8 billion was maintained. Effective 1 January 2018, the Group has adopted IFRS 9 – "Financial Instruments" which introduced a forward-looking, expected credit loss ("ECL") impairment model. On adoption, the Group has applied the requirements of IFRS 9 retrospectively without restating the comparatives. The adoption of IFRS 9 resulted in a reduction of the Group's equity on 1 January 2018 by SAR 2.9 billion. The impact of transition is explained in note 3a) to the consolidated financial statements. We considered this as a key audit matter, as the determination of ECL involves significant management judgment and this has a material impact on the consolidated financial statements of the Group. The key areas of judgment include: 1. Categorisation of financing into Stages 2 and 3 based on the identification of: (a) exposures with significant increase in credit risk ("SICR") since their origination; and (b) individually impaired/defaulted exposures. 2. Assumptions used in the ECL model for determining probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"), including but not limited to assessment of the financial condition of the counterparty, expected future cash flows and forward-looking macroeconomic factors. 3. The need to apply additional overlays to reflect current or future external factors that might not be captured by the ECL model. 4. Disclosures resulting from the adoption of IFRS 9 and the related incremental disclosures of IFRS 7. *Refer to the summary of significant accounting policies note 3a) to the consolidated financial statements for the adoption of IFRS 9 – Financial Instruments and impairment of financial assets; note 2d)i) which contains the disclosure of critical accounting judgments, estimates and assumptions relating to impairment losses on financial assets and the impairment assessment methodology used by the Group; note 7 which contains the disclosure of impairment against financing; and note 27a) for details of credit quality analysis and key assumptions and factors considered in the determination of ECL .*	We have obtained an understanding of management's assessment of impairment of financing 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 models and approval of key assumptions; – the classification of borrowers into various stages (including timely identification of SICR and determination of default or individually impaired exposures); and – the integrity of data inputs into the ECL model. We assessed the Group's criteria for determination of SICR and identification of impaired/default exposures and their classification into stages. For a sample of customers, we assessed: – the internal ratings determined by the management based on the Group's internal rating model, and checked that these ratings were in-line with the ratings used in the ECL model; – the staging as identified by management; and – management's computations of ECL. We assessed the underlying assumptions, including forward looking assumptions, used by the Group in ECL calculations. Where management overlays were used, we assessed those overlays and the governance process around such overlays. We tested the completeness of data underlying the ECL calculation as at 31 December 2018. Where relevant, we involved specialists to assist us in the review of model calculations and data integrity. As the Group has used the modified retrospective approach for adoption of IFRS 9, we performed all the above mentioned tasks to evaluate management's computation of ECL adjustment to the Group's equity as at 1 January 2018 (as a result of adoption of IFRS 9). We assessed the adequacy of disclosures in the consolidated financial statements.

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Key audit matter	How our audit addressed the key audit matter

Fees from banking services
The Group charges administrative fees upfront to borrowers in respect of financing transactions.
 	
All such fees are an integral part of generating an involvement with the resulting financial instrument and therefore, these fees should be considered as part of the effective yield on financing and recognised within 'Gross financing and investment income'.
 	
However, due to the large volume of transactions with mostly individually insignificant fee amounts, management used certain assumptions and thresholds for recognition of such fees and classified them within "Fee from banking services, net".
 	
We considered this as a key audit matter since the use of management assumptions and judgments could result in material misstatement to the consolidated financial statements, as they affect the timing and recognition of fees.
 	
Refer to the summary of significant accounting policies note 3e) to the consolidated financial statements.
	We performed the following audit procedures:
	– We assessed the design and implementation and tested the operating effectiveness of key controls over the consistent application of management's assumptions and thresholds for recognition of fee income.
	– We evaluated the assumptions and thresholds used by management for making adjustments to the effective yield of financing and checked the recording of such adjustments.
	– We obtained management's assessment of the impact of the use of assumptions and thresholds and performed the following:
	  – on a sample basis, traced the historical and current year data used by management to the underlying accounting records; and
	  – assessed management's estimation of the impact of fees on 'Fee from banking services, net' and classification in 'Gross financing and investment income'.

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Other information included in the Group's 2018 annual report

The Board of Directors ("the Directors") is responsible for the other information. Other information consists of the information included in the Group'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 IFRS as modified by SAMA for the accounting of zakat and income tax, applicable requirements of the Regulation for Companies, 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 have no realistic alternative but to do so.

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

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent Auditors' Report

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

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

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

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

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KPMG Al Fozan & Partners
Certified Public Accountants

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended 31 December 2018 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 Regulation for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-Laws in so far as they affect the preparation and presentation of the consolidated financial statements.

PricewaterhouseCoopers

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Kingdom of Saudi Arabia

Omar M. Al Sagga
Certified Public Accountant
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برايس وترهاوس كوبرز
محاسبون قانونيون
ترخيص رقم ٢٥
س.ت: ١٠١٠٣٧١٦٢٢
PRICEWATERHOUSECOOPERS
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C.R.1010371622

5 Jumada II 1440H
(10 February 2019)

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

Consolidated Statement of Financial Position

As at 31 December	Notes	2018 (SAR '000)	2017 (SAR '000)
Assets			
Cash and balances with Saudi Arabian Monetary Authority ("SAMA") and other central banks	4	**43,246,043**	48,282,471
Due from banks and other financial institutions	5	**30,808,011**	10,709,795
Investments, net	6	**43,062,565**	36,401,092
Financing, net	7	**234,062,789**	233,535,573
Property and equipment, net	8	**8,897,587**	7,858,127
Investment properties, net	9	**1,297,590**	1,314,006
Other assets, net	10	**3,629,245**	5,015,464
Total assets		365,003,830	343,116,528
Liabilities and Shareholders' Equity			
Liabilities			
Due to banks and other financial institutions	11	**7,289,624**	5,522,567
Customers' deposits	12	**293,909,125**	273,056,445
Other liabilities	13	**15,251,063**	8,786,598
Total liabilities		316,449,812	287,365,610
Shareholders' equity			
Share capital	14	**16,250,000**	16,250,000
Statutory reserve	15	**16,250,000**	16,250,000
Other reserves	15	**(349,555)**	5,281,682
Retained earnings		**12,747,323**	13,906,736
Proposed dividends	23	**3,656,250**	4,062,500
Total shareholders' equity		48,554,018	55,750,918
Total liabilities and shareholders' equity		365,003,830	343,116,528

The accompanying Notes from pages 125 to 204 form an integral part of these consolidated financial statements.

Chairman

Chief Executive Officer

Chief Financial Officer

Consolidated Statement of Income

For the years ended 31 December	Notes	2018 (SAR '000)	2017 (SAR '000)
Income			
Gross financing and investment income	17	**13,759,457**	12,581,004
Return on customers', banks' and financial institutions' time investments	17	**(506,724)**	(551,587)
Net financing and investment income	17	**13,252,733**	12,029,417
Fee from banking services, net	18	**3,101,286**	2,697,208
Exchange income, net		**755,804**	841,839
Other operating income, net	19	**209,695**	336,390
Total operating income		**17,319,518**	15,904,854
Expenses			
Salaries and employees' related benefits	20	**2,809,449**	2,813,918
Rent and premises related expenses		**314,567**	311,015
Depreciation and Amortisation	8	**442,171**	440,566
Other general and administrative expenses	21	**1,925,518**	1,671,052
Impairment charge for financing and other financial assets, net	7	**1,530,946**	1,547,577
Total operating expenses		**7,022,651**	6,784,128
Net income for the year		**10,296,867**	9,120,726
Weighted average number of shares outstanding (million)	14 & 22	**1,625**	1,625
Basic and diluted earnings per share (in SAR)	22	**6.34**	5.61

The accompanying Notes from pages 125 to 204 form an integral part of these consolidated financial statements.

Chairman Chief Executive Officer Chief Financial Officer

Consolidated Statement of Comprehensive Income

For the years ended 31 December	Notes	2018 (SAR '000)	2017 (SAR '000)
Net income for the year		**10,296,867**	9,120,726
Other comprehensive income			
Items that cannot be reclassified to consolidated statement of income in subsequent periods			
Fair Value through Other Comprehensive income (FVOCI) equity investments			
– Net change in fair value	15	**(49,798)**	–
– Re-measurement of employees' End of Service Benefits (EOSB)	25	–	(29,521)
Items that are or may be reclassified to consolidated statement of income in subsequent periods			
– Available-for-sale investments			
– Net change in fair value	15	–	201,825
– Net amounts transferred to consolidated statement of income	15	–	(340,134)
– Exchange differences on translation of foreign operations	15	**(52,637)**	73,624
Total comprehensive income for the year		**10,194,432**	9,026,520

The accompanying Notes from pages 125 to 204 form an integral part of these consolidated financial statements.

Chairman　　Chief Executive Officer　　Chief Financial Officer

Consolidated Statement of Changes in Shareholders' Equity

For the years ended 31 December	Notes	Share capital (SAR '000)	Statutory reserve (SAR '000)	Other reserves (SAR '000)	Retained earnings (SAR '000)	Proposed dividends (SAR '000)	Total (SAR '000)
2018							
Balance at 31 December 2017		16,250,000	16,250,000	5,281,682	13,906,736	4,062,500	55,750,918
Impact of adopting IFRS 9	3	–	–	(129,789)	(2,752,899)	–	(2,882,688)
Other adjustment	38	–	–	–	(799,356)	–	(799,356)
Restated balance at 1 January 2018	23	16,250,000	16,250,000	5,151,893	10,354,481	4,062,500	52,068,874
Dividend for the second half 2017	23	–	–	–	–	(4,062,500)	(4,062,500)
Interim dividends for the first half of 2018	15	–	–	–	(3,250,000)	–	(3,250,000)
Net change in fair value of FVOCI investments	15	–	–	(49,798)	–	–	(49,798)
Net movement in foreign currency translation reserve	15	–	–	(52,637)	–	–	(52,637)
Net other comprehensive income recognised directly in equity		–	–	(102,435)	–	–	(102,435)
Net income for the period		–	–	–	10,296,867	–	10,296,867
Total comprehensive income for the period				(102,435)	10,296,867	–	10,194,432
Zakat for previous year(s)	15	–	–	(5,379,724)	(25,547)	–	(5,405,271)
Zakat for current year and other transfers	15	–	–	(19,289)	(972,228)	–	(991,517)
Proposed final dividends for 2018		–	–	–	(3,656,250)	3,656,250	–
Balance at 31 December 2018		16,250,000	16,250,000	(349,555)	12,747,323	3,656,250	48,554,018
2017							
Balance at 1 January 2017		16,250,000	16,250,000	4,773,362	12,236,010	2,437,500	51,946,872
Transfer to other reserves for zakat		–	–	758,000	(758,000)	–	–
Dividends for the second half of 2016		–	–	–	–	(2,437,500)	(2,437,500)
Interim dividends for the first half of 2017	23	–	–	–	(2,437,500)	–	(2,437,500)
Net change in fair value of available-for-sale investments	15	–	–	201,825	–	–	201,825
Net amounts transferred to consolidated statement of income	15	–	–	(340,134)	–	–	(340,134)
Net movement in foreign currency translation reserve	15	–	–	73,624	–	–	73,624
Net income recognised directly in shareholder's equity		–	–	(64,685)	–	–	(64,685)
Net income for the year		–	–	–	9,120,726	–	9,120,726
Re-measurement of employee EOSB		–	–	(29,521)	–	–	(29,521)
Total comprehensive income for the year		–	–	(94,206)	9,120,726	–	9,026,520
Zakat paid		–	–	(155,474)	–	–	(155,474)
Zakat Payable transferred to other liability		–	–	–	(192,000)	–	(192,000)
Proposed final dividends for 2017	23	–	–	–	(4,062,500)	4,062,500	–
Balance at 31 December 2017		16,250,000	16,250,000	5,281,682	13,906,736	4,062,500	55,750,918

The accompanying Notes from pages 125 to 204 form an integral part of these consolidated financial statements.

Chairman

Chief Executive Officer

Chief Financial Officer

Consolidated Statement of Cash Flows

For the years ended 31 December	Notes	2018 (SAR '000)	2017 (SAR '000)
Cash flows from operating activities			
Net income for the year		10,296,867	9,120,726
Adjustments to reconcile net income to net cash from/(used in) operating activities:			
Gain/loss on investments held at fair value through statement of income (FVSI)	19	(14,600)	(12,635)
Depreciation and Amortisation on property and equipment	8	442,171	440,566
Depreciation on investment properties		16,416	16,862
Loss/(Gain) on sale of property and equipment, net	19	115	(594)
Impairment charge for financing and other financial assets, net	7	1,530,946	1,547,577
Share in earnings of associate	19	(47,928)	(35,545)
(Increase)/decrease in operating assets			
Statutory deposit with SAMA and central banks		(1,491,942)	191,193
Due from banks and other financial institutions		(15,005,538)	8,083,181
Financing		(4,940,851)	(10,089,026)
Investments held as FVSI		151,904	(261,286)
Other assets, net		1,333,582	(801,486)
Increase/(decrease) in operating liabilities			
Due to banks and other financial institutions		1,767,057	(3,394,403)
Customers' deposits		20,852,681	463,309
Other liabilities		(520,389)	2,293,735
Net cash from operating activities		14,370,491	7,562,174
Cash flows from investing activities			
Acquisitions of property and equipment	8	(1,481,746)	(1,813,962)
Purchase of FVOCI/Available for sale investment		(1,389,489)	(1,071,373)
Proceeds from disposal of FVOCI/Available-for-sale investment		1,203,936	380,213
Proceeds from maturities of investments recorded at amortised cost		96,748,563	111,048,401
Purchase of investments recorded at amortised cost		(103,363,657)	(112,554,297)
Proceeds from sale of property and equipment		–	1,025
Net cash (used in)/from investing activities		(8,282,393)	(4,009,993)
Cash flows from financing activities			
Dividends paid		(7,312,500)	(4,858,497)
Zakat paid		(211,290)	(155,474)
Net cash used in financing activities		(7,523,790)	(5,013,971)
Net (decrease)/increase in cash and cash equivalents		(1,435,692)	(1,461,790)
Cash and cash equivalents at the beginning of the year		31,222,195	32,683,985
Cash and cash equivalents at the end of the year	24	29,786,503	31,222,195
Gross financing and investment income received during the year		13,391,901	12,639,813
Return on customers', banks' and financial institutions' time investments paid during the year		(728,956)	(542,644)
		12,662,945	12,097,169
Non-cash transactions:			
Other real estate		72,106	147,106
Net change in fair value and gain/(loss) transferred to consolidated statement of income on available-for-sale investments		–	(138,309)
Net change in fair value of FVOCI equity investments		(49,798)	–

The accompanying Notes from pages 125 to 204 form an integral part of these consolidated financial statements.

Chairman | Chief Executive Officer | Chief Financial Officer

Notes to the Consolidated Financial Statements

1 General

(a) Incorporation and operation

Al Rajhi Banking and Investment Corporation, a Saudi Joint Stock Company, (the "Bank"), was formed and licensed pursuant to Royal Decree No. M/59 dated 3 Dhul Qadah 1407H (corresponding to 29 June 1987) and in accordance with Article 6 of the Council of Ministers' Resolution No. 245, dated 26 Shawal 1407H (corresponding to 23 June 1987).

The Bank operates under Commercial Registration No. 1010000096 and its Head Office is located at the following address:

Al Rajhi Bank
8467, King Fahd Road – Al Muruj District
Unit No. 1
Riyadh 12263 – 2743
Kingdom of Saudi Arabia

The objectives of the Bank are to carry out banking and investment activities in accordance with its Articles of Association and Bylaws, the Banking Control Law and the Council of Ministers' Resolution referred to above. The Bank is engaged in banking and investment activities inside and outside the Kingdom of Saudi Arabia through 581 branches (2017: 599 branches) including the branches outside the Kingdom and 13,532 employees (2017: 13,077 employees). The Bank has established certain subsidiary companies (together with the Bank hereinafter referred to as "the Group") in which it owns all or majority of their shares as set out below [Also see Note 3 (b)]:

Name of subsidiaries	Beneficial shareholding percentage 2018 %	2017 %	
Al Rajhi Development Company – KSA	**100**	100	A limited liability company registered in the Kingdom of Saudi Arabia to support the mortgage programmes of the Bank through transferring and holding the title deeds of real estate properties under its name on behalf of the Bank, collection of revenue of certain properties sold by the Bank, provide real estate and engineering consulting services, provide documentation service to register the real estate properties and overseeing the evaluation of real estate properties.
Al Rajhi Corporation Limited – Malaysia	**100**	100	A licensed Islamic Bank under the Islamic Financial Services Act 2013, incorporated and domiciled in Malaysia.
Al Rajhi Capital Company – KSA	**100**	100	A limited liability company registered in the Kingdom of Saudi Arabia to act as principal agent and/or to provide brokerage, underwriting, managing, advisory, arranging and custodial services.
Al Rajhi Bank – Kuwait	**100**	100	A foreign branch registered with the Central Bank of Kuwait.
Al Rajhi Bank – Jordan	**100**	100	A foreign branch operating in Hashemie Kingdom of Jordan, providing all financial, banking, and investments services and importing and trading in precious metals and stones in accordance with Islamic Sharia rules and under the applicable banking law.
Al Rajhi Takaful Agency Company – KSA	**99**	99	A limited liability company registered in the Kingdom of Saudi Arabia to act as an agent for insurance brokerage activities per the agency agreement with Al Rajhi Cooperative Insurance Company.
Al Rajhi Company for Management Services – KSA	**100**	100	A limited liability company registered in the Kingdom of Saudi Arabia to provide recruitment services.

The subsidiaries are wholly or substantially owned by the Bank and therefore, the non-controlling interest which is insignificant is not disclosed. All the above-mentioned subsidiaries have been consolidated. As of 31 December 2018 and 2017, interests in subsidiaries not directly owned by the Bank are owned by representative shareholders for the beneficial interest of the Bank.

(b) Sharia Authority

As a commitment from the Bank for its activities to be in compliance with Islamic Sharia legislations, since its inception, the Bank has established a Sharia Authority to ascertain that the Bank's activities are subject to its approval and control. The Sharia Authority had reviewed several of the Bank's activities and issued the required decisions thereon.

2 Basis of Preparation

(a) Statement of compliance

The (consolidated) financial statements of the Bank (Group) have been prepared;

- in accordance with "International Financial Reporting Standards (IFRS) as modified by Saudi Arabian Monetary Authority (SAMA) for the accounting of zakat and income tax", (relating to the application of International Accounting Standard (IAS) 12 – "Income Taxes" and IFRIC 21 – "Levies" in so far as these relate to accounting for Saudi Arabian 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.

(b) Basis of measurement and preparation

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of investments held as fair value through statement of income ("FVSI") and fair value through other comprehensive income ("FVOCI") investments.

The Bank presents its statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 27.2.

(c) Functional and presentation currency

The consolidated financial statements are presented in Saudi Arabian Riyals ("SAR"), which is the Bank's functional currency and are rounded off to the nearest thousand except otherwise indicated.

(d) Critical accounting judgements, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgements in the process of applying the Bank's accounting policies. Such estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Bank, based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Bank. Such changes are reflected in the assumptions when they occur. Significant areas where management has used estimates, assumptions or exercised judgements is as follows:

(i) Impairment losses on financial assets

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

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

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

(ii) Fair value of financial instruments

The Group measures financial instruments at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are 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** – Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- **Level 3** – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

(iii) Determination of control over investees

The control indicators are subject to management's judgements that can have a significant effect in the case of the Bank's interests in investments funds.

Investment funds

The Group acts as Fund Manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the Fund (comprising any carried profits and expected management fees) and the investor's rights to remove the Fund Manager. 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.

(iv) Provisions for liabilities and charges

The Bank receives legal claims against it in the normal course of business. Management has made judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amounts of possible outflow of economic benefits. Timing and cost ultimately depends on the due process being followed as per the Law.

(v) Going concern

The consolidated financial statements have been prepared on a going concern basis. The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern.

3 Summary of Significant Accounting Policies

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

(a) Change in accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December, 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 has had no material impact on the consolidated financial statements of the Group on the current period or prior periods. The impact and disclosures pertaining to adoption of IFRS 9 has been disclosed in the later part of these financial statements.

Adoption of New Standards

Effective 1 January 2018, the Group has adopted the following accounting standards and the impact of the adoption of these standards is explained below.

Except for the adoption of the following new accounting standards, several other amendments and interpretations apply for the first time in 2018, but do not have impact on the consolidated financial statements of the Bank.

Adoption of IFRS 15 – Revenue from contracts with customers

The Bank adopted IFRS 15 – "Revenue from Contracts with Customers" resulting in a change in the revenue recognition policy of the Bank in relation to its contracts with customers.

IFRS 15 was issued in May 2014 and is effective for annual periods commencing on or after 1 January 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 IFRSs. It established a new five-step model that will apply 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.

IFRS 15 also includes a comprehensive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

The Bank has assessed that the impact of IFRS 15 is not material on the consolidated financial statements of the Group as at the initial adoption and the reporting date.

Adoption of IFRS 9 – Financial instruments

The Bank has adopted IFRS 9 – Financial Instruments issued in July 2014 with a date of initial application of 1 January 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.

The key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarised 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 profit or loss ("FVSI"). This classification is generally based 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.

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 recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- The remaining amount of change in the fair value is presented in profit or loss.

Impairment of financial assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model ("ECL"). The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. 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 expected credit losses.

Under IFRS 9, credit losses are recognised earlier than under IAS 39.

IFRS 7 – Financial Instruments: Disclosures

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures were updated and the Bank has adopted it, together with IFRS 9, for year beginning 1 January 2018. Changes include transition disclosures as shown in Note 3, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in Note 27.

Reconciliations from opening to closing ECL allowances are presented in Notes 7.

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. A difference in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 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 FVSI.
  - 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. Financial assets and financial liabilities

(i) Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Bank's financial assets and financial liabilities as at 1 January 2018.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying value under IAS 39 (SAR '000)	New carrying value under IFRS 9 (SAR '000)
Financial assets				
Cash and balances with Saudi Arabian Monetary Authority ("SAMA") and other central banks	Loans and receivables	Amortised cost	48,282,471	48,282,471
Due from banks and other financial institutions	Loans and receivables	Amortised cost	10,709,795	10,705,849
Investments held at amortised cost				
Murabaha with Saudi Government and SAMA	Held to maturity	Amortised cost	23,452,869	23,437,245
Sukuk	Held to maturity	Amortised cost	9,805,139	9,775,876
	Held to maturity	FVTPL	800,000	800,000
Investments held as FVSI				
Equity investments	FVSI	FVOCI	23,487	23,487
Mutual funds	FVSI	FVTPL	389,193	389,193
Available-for-sale investments				
Equity investments	Available for sale	FVOCI	771,293	771,293
Mutual funds	Available for sale	FVTPL	1,034,286	1,034,286
Financing, net	Loans and receivables	Amortised cost	233,535,573	230,701,718
			328,804,106	325,921,418
Financial liabilities				
Due to banks and other financial institutions	Amortised cost	Amortised cost	5,522,567	5,522,567
Customers' deposits	Amortised cost	Amortised cost	273,056,445	273,056,445
Other liabilities	Amortised cost	Amortised cost	8,786,598	8,786,598
			287,365,610	287,365,610

(ii) Reconciliation of carrying amounts under IAS 39 to carrying amounts under IFRS 9 at the adoption of IFRS 9

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

	IAS 39 carrying amount as at 31 December 2017 (SAR '000)	Reclassification (SAR '000)	Re-measurement (SAR '000)	IFRS 9 carrying amount as at 1 January 2018 (SAR '000)
Financial assets				
Amortised cost				
Cash and balances with Saudi Arabian Monetary Authority ("SAMA") and other central banks:				
Opening balance	48,282,471	–	–	–
Closing balance	48,282,471	–	–	**48,282,471**
Due from banks and other financial institutions				
Opening balance	10,709,795	–	–	–
Remeasurement (ECL allowance) (Note 1)	–	–	(3,946)	–
Closing balance	10,709,795	–	(3,946)	**10,705,849**
Financing – Net:				
Opening balance	233,535,573	–	–	–
Remeasurement (ECL allowance) (Note 1)	–	–	(2,833,855)	–
Closing balance	233,535,573	–	(2,833,855)	**230,701,718**
Investment:				
Opening balance	34,058,008	–	–	–
To FVTPL	–	(800,000)	–	–
Remeasurement (ECL allowance) (Note 1)	–	–	(44,887)	–
Closing balance	34,058,008	(800,000)	(44,887)	**33,213,121**
Total financial assets	326,585,847	(800,000)	(2,882,688)	**322,903,159**

Note 1: Impairment allowance is increased due to change from incurred to expected credit loss (ECL).

	IAS 39 carrying amount as at 31 December 2017 (SAR '000)	Reclassification (SAR '000)	Remeasurement (SAR '000)	IFRS 9 carrying amount as at 1 January 2018 (SAR '000)
Financial assets				
Available for sale				
Investment:				
Opening balance	1,805,579	–	–	–
Transferred to:				
FVOCI – equity (Note 1)	–	(771,293)	–	–
FVSI (Note 2)	–	(1,034,286)	–	–
Total available for sale	1,805,579	(1,805,579)	–	–
FVSI				
Investment:				
Opening balance	412,680	–	–	–
From available for sale (Note 2)	–	1,034,286	–	–
From amortised cost (Note 3)	–	800,000	–	–
Transfer to FVOCI (Note 1)	–	(23,487)	–	–
Total FVSI	412,680	1,810,799	–	**2,223,479**
FVOCI				
Investment:				
Opening balance	–	–	–	–
From available for sale	–	771,293	–	–
From FVSI	–	23,487	–	–
Total FVOCI	–	794,780	–	**794,780**
Financial liabilities				
At Amortised cost				
Due to banks and other financial institutions	5,522,567	–	–	**5,522,567**
Customers deposits	273,056,445	–	–	**273,056,445**
Other liabilities	8,786,598	–	–	**8,786,598**
Total at amortised cost	287,365,610	–	–	**287,365,610**

Note 1: The Bank has elected to irrevocably designate equity investments of SAR 771.293 Mn. in a portfolio of non trading equity securities at FVOCI as permitted under IFRS 9. These securities were previously classified as available for sale. Upon disposal of equity investment, any balances within the OCI reserve (fair value movement) for these investments will no longer be reclassified to profit or loss. Moreover, equity investments amounting to SAR 23.487 Mn. were reclassified from FVSI to FVOCI.

Note 2: The Bank holds a portfolio of mutual funds that failed to meet the solely payments of principal and interest (SPPI) requirement for Amortised cost/FVOCI classification under IFRS 9. As a result, these funds which amounted to SAR 1,034,286 Mn. were classified as FVSI from the date of initial application.

Note 3: The Bank holds investment in certain Sukuk that failed to meet the solely payments of principal and interest (SPPI) requirement. As a result, these Sukuk amounted to SAR 800 Mn. were classified as FVSI from the date of initial application.

(iii) Impact on retained earnings and other reserves

	Retained earnings (SAR '000)	Other reserves (SAR '000)
Closing balance under IAS 39 (31 December 2017)	13,906,736	5,281,682
Reclassifications under IFRS 9	129,789	(129,789)
Recognition of expected credit losses under IFRS 9	(2,882,688)	–
Opening balance under IFRS 9 (1 January 2018)	**11,153,837**	**5,151,893**

The following table reconciles the provision recorded as per the requirements of IAS 39 to that of IFRS 9:

- The closing impairment allowance for financial assets in accordance with IAS 39; to
- The opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

	31 December 2017 (IAS 39) (SAR '000)	Re-measurement (SAR '000)	**1 January 2018 (IFRS 9) (SAR '000)**
Allowance for impairment			
Loans and receivables (IAS 39)/Financial assets at amortised cost (IFRS 9)			
Due from banks and other financial institutions	–	3,946	**3,946**
Financing – net:	5,555,210	2,833,855	**8,389,065**
Investments	–	44,887	**44,887**
Total	5,555,210	2,882,688	**8,437,898**

(iv) The following table provides the carrying value of financial assets and financial liabilities in the Statement of Financial Position

	31 December 2018			
	Mandatorily at FVSI (SAR '000)	FVOCI – equity investments (SAR '000)	Amortised cost (SAR '000)	Total carrying amount (SAR '000)
Financial assets				
Cash and balances with Saudi Arabian Monetary Authority ("SAMA") and other central banks	–	–	43,246,043	43,246,043
Due from banks and other financial Institutions	–	–	30,808,011	30,808,011
Investments held at amortised cost				
Murabaha with Saudi Government and SAMA	–	–	22,477,145	22,477,145
Sukuk	–	–	17,395,957	17,395,957
Investments held as FVSI				
Mutual funds	1,141,584	–	–	1,141,584
Sukuk	800,000	–	–	800,000
FVOCI investments				
Equity investments	–	1,103,463	–	1,103,463
Financing, net	–	–	234,062,789	234,062,789
Total financial assets	1,941,584	1,103,463	347,989,945	351,034,992
Financial liabilities				
Due to banks and other financial institutions	–	–	7,289,624	7,289,624
Customers' deposits	–	–	293,909,125	293,909,125
Other liabilities	–	–	15,251,063	15,251,063
Total financial liabilities	–	–	316,449,812	316,449,812

	31 December 2017							
	Note	Trading (SAR '000)	Designated as at FVSI (SAR '000)	Held to maturity (SAR '000)	Loans and receivables (SAR '000)	Available for sale (SAR '000)	Other amortised (SAR '000)	Total carrying amount (SAR '000)
Financial assets								
Cash and balances with Saudi Arabian Monetary Authority ("SAMA") and other central banks		–	–	–	48,282,471	–	–	48,282,471
Due from banks and other financial Institutions		–	–	–	10,709,795	–	–	10,709,795
Investments held at amortised cost								
Murabaha with Saudi Government and SAMA		–	–	23,452,869	–	–	–	23,452,869
Sukuk		–	–	10,605,139	–	–	–	10,605,139
Investments held as FVSI								
Equity investments		–	23,487	–	–	–	–	23,487
Mutual funds		–	389,193	–	–	–	–	389,193
Available-for-sale investments								
Equity investments		–	–	–	–	771,293	–	771,293
Mutual funds		–	–	–	–	1,034,286	–	1,034,286
Financing, net		–	–	–	233,535,573	–	–	233,535,573
Total financial assets		–	412,680	34,058,008	292,527,839	1,805,579	–	328,804,106
Financial liabilities								
Due to banks and other financial institutions		–	–	–	–	–	5,522,567	5,522,567
Customers' deposits		–	–	–	–	–	273,056,445	273,056,445
Other liabilities		–	–	–	–	–	8,786,598	8,786,598
Total financial liabilities		–	–	–	–	–	287,365,610	287,365,610

(b) Policies applicable from 1 January 2018

1. Classification of financial assets

On initial recognition, a financial asset is classified and measured at: amortised cost, FVOCI or FVSI.

Financial asset at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVSI:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial asset at FVOCI

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVSI:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Financial asset at FVSI

All other financial assets are classified as measured at FVSI.

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

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

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

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

The business model assessment is based on reasonably expected scenarios without taking "worst case"or "stress case" scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

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

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

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money- e.g. periodical reset of interest rates.

Reclassification

The Bank reclassifies the financial assets between FVSI, FVOCI and amortised cost if and only if under rare circumstances its business model objective for its financial assets changes so its previous business model assessment would no longer apply.

Financing and Investment

The Bank offers profit based products including Mutajara, instalment sales, Murabaha and Istisnaa to its customers in compliance with Sharia rules.

The Bank classifies its Principal financing and Investment as follows:

Financing: These financing represents loans granted to customers. These financings mainly constitute four broad categiries i.e. Mutajara, Installment sales, Murabaha and credit cards. The Bank classifies these financings at amortised cost.

Due from banks and other financial institutions: These consists of placements with financial Institutions (FIs). The Bank classifies these balances due from banks and other financial institutions at amortised cost as they are held to collect contractual cash flows and pass SPPI criterion.

Investments (Murabaha with SAMA): These investments consists of placements with Saudi Arabian Monetary Authority (SAMA). The Bank classifies these investments at amortised cost as they are held to collect contractual cash flows and pass SPPI criterion.

Investments (Sukuk): These investments consists of Investment in various Sukuk. The Bank classifies these investment at amortised cost except for those Sukuk which fails SPPI criterion, are classified at FVSI.

Equity Investments: These are the strategic equity investments which the Bank does not expect to sell, for which Bank has made an irrevocable election on the date of initial recognition to present the fair value changes in other comprehensive income.

Investments (Mutual Funds): The investments consist of Investment in various Mutual Funds. The Bank classifies these investment at FVSI as these investments fail SPPI criterion.

2. Classification of financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost.

All amounts due to banks and other financial institutions and customer deposits are initially recognised at fair value less transaction costs.

Subsequently, financial liabilities are measured at amortised cost, unless they are required to be measured at fair value through profit or loss.

3. Derecognition

(a) Financial assets

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

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

From 1 January 2018, any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

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

(b) Financial liabilities

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

4. Modifications of financial assets and financial liabilities

(a) Financial assets

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

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

(b) Financial liabilities

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

5. Impairment

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVSI:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

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

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

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. It is measured as follows:

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

Restructured financial assets

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

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

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

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost 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 reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

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

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

- The market's assessment of creditworthiness as reflected in the 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;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Write-off

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

Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The Bank's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same as it was under IAS 39. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. However, the fair value of collateral affects the calculation of ECL. It is generally assessed, at a minimum, at inception and re-assessed on a periodic basis. However, some collateral, for example, cash or market securities relating to margining requirements, is valued daily.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, or based on housing price indices.

Collateral repossessed

The Bank's accounting policy under IFRS 9 remains the same as it was under IAS 39. The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Bank's policy.

6. Financial guarantees and loan commitments

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

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

- from 1 January 2018: at the higher of this amortised amount and the amount of loss allowance; and
- Before 1 January 2018: at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

The Bank has issued no loan commitments that are measured at FVSI. For other loan commitments:

- from 1 January 2018: the Bank recognises loss allowance;
- Before 1 January 2018: the Bank recognises a provision in accordance with IAS 37 if the contract was considered to be onerous.

7. Foreign Currencies

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year adjusted for the effective profits rate and payments during the year and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Realised and unrealised gains or losses on exchange are credited or charged to the interim condensed consolidated statement of comprehensive income.

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of available-for-sale equity instruments (before 1 January 2018) or equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI (from 1 January 2018) are recognised in OCI.

The monetary assets and liabilities of foreign subsidiaries are translated into SAR at rates of exchange prevailing at the date of the interim condensed consolidated statement of financial position. The statements of income of foreign subsidiaries are translated at the weighted average exchange rates for the year.

8. Rendering of services

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

The Bank has concluded that revenue from rendering of various services related to payment service system, share trading services, remittance business, SADAD and Mudaraba (i.e. subscription, management and performance fees), should be recognised at the point when services are rendered i.e. when performance obligation is satisfied.

1. Financing and Investment

The Bank offers non-profit based products including Mutajara, instalment sales, Murabaha and Istisnaa to its customers in compliance with Sharia rules.

The Bank classifies its principal financing and investment as follows:

i. **Held at amortised cost** – such financing and certain investments which meets the definition of loans and receivables under IAS 39, are classified as held at amortised cost, and comprise Mutajara, instalment sale, Istisnaa, Murabaha and credit cards operations accounts balances. Investments held at amortised cost are initially recognised at fair value and subsequently measured at amortised cost (using effective yield basis) less any amounts written off, and allowance for impairment.

Financings are non-derivative financial assets originated or acquired by the Bank with fixed or determinable payments. Financings are recognised when cash is advanced to borrowers. They are derecognised when either borrower repays their obligations, or the financings are sold or written off, or substantially all the risks and rewards of ownership are transferred.

All financing are initially measured at fair value, plus incremental direct transaction costs (above certain threshold) and are subsequently measured at amortised cost using effective yield basis. Following the initial recognition, subsequent transfers between the various classes of financings is not ordinarily permissible. The subsequent period-end reporting values for various classes of financings are determined on the basis as set out in the following paragraphs.

ii. **Held to Maturity** – Investments having fixed or determinable payments and fixed maturity 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 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.

Notes to the Consolidated Financial Statements

Investments classified as held to maturity cannot ordinarily be sold or reclassified without impacting the Group's ability to use this classification.

However, sales and reclassifications in any of the following circumstances would not impact the Group's ability to use this classification.

- Sales or reclassifications that are so close to maturity that the changes in market rate of commission would not have a significant effect on the fair value.
- Sales or reclassifications after the Group has collected substantially all the assets' original principal.
- Sales or reclassifications attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

iii. **Held as FVSI** – Investments in this category are classified as either investment held for trading or those designated as FVSI on initial recognition. Investments classified as trading are acquired principally for the purpose of selling or repurchasing in the short term. These investments comprise mutual funds and equity investments. Such investments are measured at fair value and any changes in the fair values are charged to the consolidated statement of income. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVSI investments and are expensed in the consolidated financial statements. Investment income and dividend income on financial assets held as FVSI are reflected under other operating income in the consolidated statement of income.

Investments at FVSI are not reclassified subsequent to their initial recognition, except that non-derivative FVSI instruments, other than those designated as FVSI upon initial recognition, may be reclassified out of the FVSI (i.e. trading) category if they are no longer held for the purpose of being sold or repurchased in the near term, and the following conditions are met:

- If the financial asset would have met the definition of financing and receivables, if the financial asset had not been required to be classified as held for trading at initial recognition, then it may be reclassified if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
- If the financial asset would not have met the definition of financing and receivables, and then it may be reclassified out of the trading category only in "rare circumstances".

iv. **Available-for-sale** – Available-for-sale investments are those non-derivative equity securities which are neither classified as Held to maturity investments, financing nor designated as FVSI, that are intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in special commission rates, exchange rates or equity prices.

Investments which are classified as "available-for-sale" are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at fair value except for unquoted equity securities whose fair value cannot be reliably measured are carried at cost. Unrealised gains or losses arising from changes in fair value are recognised in other comprehensive income until the investment is de-recognised or impaired whereupon any cumulative gain or loss previously recognised in other comprehensive income are reclassified to consolidated statement of income. A security held as available-for-sale may be reclassified to "Other investments held at amortised cost" if it otherwise would have met the definition of "Other investments held at amortised cost" and if the Bank has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

2. Impairment of financial assets

Held at amortised cost

An assessment is made at the date of each consolidated statement of financial position to determine whether there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset or a group of financial assets and that a loss event(s) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If such evidence exists, the difference between the assets carrying amount and the present value of estimated future cash flows is calculated and any impairment loss, is recognised for changes in the asset's carrying amount. The carrying amount of the financial assets held at amortised cost, is adjusted either directly or through the use of an allowance for impairment account, and the amount of the adjustment is included in the Consolidated Statement of Income.

A specific provision for credit losses due to impairment of a financing or any other financial asset held at amortised cost is established if there is objective evidence that the Bank 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.

Considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are essentially based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such allowance for impairment. In addition to the specific allowance for impairment described above, the Bank also makes collective impairment allowance for impairment, which are evaluated on a group basis and are created for losses, where there is objective evidence that unidentified losses exist at the reporting date. The amount of the provision is estimated based on the historical default patterns of the investment and financing counter-parties as well as their credit ratings, taking into account the current economic climate. In assessing collective impairment, the Bank also uses internal loss estimates and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than is suggested by historical trends. Loss rates are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

The criteria that the Bank uses to determine that there is an objective evidence of impairment loss include:

- Delinquency in contractual payments of principal or profit.
- Cash flow difficulties experienced by the customer.
- Breach of repayment covenants or conditions.
- Initiation of bankruptcy proceedings against the customer.
- Deterioration of the customer's competitive position.
- Deterioration in the value of collateral.

When financing amount is uncollectible, it is written-off against the related allowance for impairment. Such financing is written-off after all necessary procedures have been completed and the amount of the loss has been determined.

Financing whose terms have been renegotiated are no longer considered to be past due but are treated as new financing. Restructuring policies and practices are based on indicators or criteria which, indicate that payment will most likely continue. The financing continue to be subject to an individual or collective impairment assessment, calculated using the financing's original effective yield rate.

Financing 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 financing. In other cases, renegotiation lead to a new agreement, this is treated as a new financing.

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 customer's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance for impairment account. The amount of the reversal is recognised in the statement of income as impairment charge. Financial assets are written-off only in circumstances where effectively all possible means of recovery have been exhausted.

Collectively assessed impairment allowances are provided for:

- Portfolios of homogeneous assets mainly relating to the retail financing portfolio that are individually not significant.
- On the corporate portfolio for financing where losses have been incurred but not yet identified, by using historical experience, judgement and statistical techniques.

Available for-sale equity investments

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 cannot be reversed through the 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 equity is included in the consolidated statement of income for the year.

3. De-recognition of financial assets and financial liabilities

- 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 the cash flows from the financial asset expire or the asset is transferred and the transfer qualifies for de-recognition.
- 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 expired.

4. Guarantees

In the ordinary course of business the Bank gives guarantees which include letters of credit, letters of guarantee, acceptances and stand-by letters of credit. Initially, the received margins are recognised as liabilities at fair value, being the value of the premium received and included in customers' deposits in the consolidated financial statements. Subsequent to the initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised 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, net". The premium received is recognised in the consolidated statement of income under "Fees from banking services, net" on a straight line basis over the life of the guarantee.

5. Foreign currencies

The consolidated financial statements are presented in Saudi Arabian Riyals ("SAR"), which is also the Bank's functional currency. Each entity determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are translated into SAR at exchange rates prevailing on the dates of the transactions. Monetary assets and liabilities at the year-end (other than monetary items that form part of the net investment in foreign operations are translated into SAR at exchange rates prevailing on the reporting date.

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year adjusted for the effective profits rate and payments during the year and the amortised cost in foreign currency translated at exchange rate at the end of the year.

Foreign exchange gains or losses from settlement of transactions and translation of period end monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

As at the reporting date, the assets and liabilities of foreign operations are translated into SAR at the rate of exchange as at the statement of financial position date, and their statement of incomes are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are recognised in the statements of other comprehensive income.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to the statement of income as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests.

(b) Basis of consolidation

These consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as set out in note 1 to these financial statements (collectively referred to as "the Group"). The financial statements of subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies.

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

The consolidated financial statements have been prepared using uniform accounting policies and valuation methods for like transactions and other events in similar circumstances. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect amount of its returns.

When the Group has less than majority of the voting or similar rights of an investee entity, the Bank considers all relevant facts and circumstances in assessing whether it has power over the entity, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Bank's voting rights and potential voting rights granted by equity instruments such as shares

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Bank loses control over a subsidiary, it:

- derecognises the assets and liabilities of the subsidiary
- derecognises the cumulative translation differences recorded in shareholder's equity
- recognises the fair value of the consideration received
- recognises the fair value of any investment retained
- recognises any surplus or deficit in profit or loss
- reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate as would be required if the Bank had directly disposed of the related assets or liabilities.

Intra-group balances and any income and expenses arising from intra-group transactions, are eliminated in preparing these consolidated financial statements.

Investment in associate

An associate is an entity over which the Bank exercises significant influence (but not control), over financial and operating policies and which is neither a subsidiary nor a joint arrangement. Investments in associates are initially recognised at cost and subsequently accounted for under the equity method of accounting and are carried in the consolidated statement of financial position at the lower of the equity-accounted or the recoverable amount. Equity-accounted value represents the cost plus post-acquisition changes in the Bank's share of net assets of the associate (share of the results, reserves and accumulated gains/losses based on latest available financial statements) less impairment, if any.

The previously recognised impairment loss in respect of investment in associate can be reversed through the consolidated statement of income, such that the carrying amount of the investment in the statement of financial position remains at the lower of the equity-accounted (before provision for impairment) or the recoverable amount. On derecognition the difference between the carrying amount of investment in the associate and the fair value of the consideration received is recognised in the consolidated statement of income.

(c) Trade date

All regular way purchases and sales of financial assets are recognised and derecognised on the trade date (i.e. the date on which the Bank commits to purchase or sell the assets). Regular way purchases or sales of financial assets require delivery of those assets within the time frame generally established by regulation or convention in the market place. All other financial assets and financial liabilities (including assets and liabilities designated at fair value through statement of income) are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

(d) Offsetting financial instruments

Financial assets and financial liabilities are offset and are reported net in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts, and when the Group intends to settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses are not offset in the consolidated statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

(e) Revenue recognition

The following specific recognition criteria must be met before revenue is recognised.

Income from Mutajara, Murabaha, investments held at amortised cost, instalment sale, Istisnaa financing and credit cards services is recognised based on the effective yield basis on the outstanding balances. The effective yield is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset (or, where appropriate, a shorter period) to the carrying amount of the financial asset . When calculating the effective yield, the Group estimates future cash flows considering all contractual terms of the financial instrument but excluding future credit losses. Fees and commissions are recognised when the service has been provided.

Financing commitment fees that are likely to be drawn down and other credit related fees are deferred (above certain threshold) and, together with the related direct cost, are recognised as an adjustment to the effective yield on the financing. When a financing commitment is not expected to result in the draw-down of a financing, financing commitment fees are recognised on a straight-line basis over the commitment period.

Fee and commission income that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, over the period when the service is being provided i.e. related performance obligation is satisfied.

Fee and commission income that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, over the period when the service is being provided i.e. related performance obligation is satisfied.

Fees received for asset management, wealth Management, financial planning, custody services and other similar services that are provided over an extended period of time, are recognised over the period when the service is being provided i.e. related performance obligation is satisfied . Asset management fees related to investment funds are recognised over the period the service is being provided. The same principle applies to Wealth management and Custody Services that are continuously recognised over a period of time.

Dividend income is recognised when the right to receive income is established which is generally when the shareholders approve the dividend. Dividends are reflected as a component of net trading income, net income from FVSI financial instruments or other operating income based on the underlying classification of the equity instrument.

Foreign currency exchange income/loss is recognised when earned/incurred.

Net trading income results from trading activities and include all realised and unrealised gains and losses from changes in fair value and related gross investment income or expense, dividends for financial assets and financial liabilities held for trading and foreign exchange differences.

Net income from FVSI financial instruments relates to financial assets and liabilities designated as FVSI and includes all realised and unrealised fair value changes, investment income, dividends and foreign exchange differences.

(f) Other real estate

The Bank, in the ordinary course of business, acquires certain real estate against settlement of financing. Such real estate are considered as assets held for sale and are initially stated at the lower of net realisable value of due financing and the current fair value of the related properties, less any costs to sell (if material). No depreciation is charged on such real estate. Rental income from other real estate is recognised in the consolidated statement of income.

Subsequent to initial recognition, any subsequent write down to fair value, less costs to sell, are charged to the consolidated statement of income. Any subsequent revaluation gain in the fair value less costs to sell of these assets, to the extent this does not exceed the cumulative write down previously recognised are recognised, in the consolidated statement of income. Gains or losses on disposal are recognised in the consolidated statement of income.

(g) Investment properties

Investment properties are held for long-term rental yield and are not occupied by the Group. They are carried at cost, and depreciation is charged to the consolidated statement of income.

The cost of investment properties is depreciated using the straight-line method over the estimated useful life of the assets.

(h) Property and equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment loss. Land is not depreciated. The cost of other property and equipment is depreciated using the straight-line method over the estimated useful life of the assets, as follows:

- Leasehold land improvements over the lesser of the period of the lease or the useful life
  - Buildings 33 years
  - Leasehold building improvements over the lease period or 3 years, whichever is shorter
  - Equipment and furniture 3 to 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the date of each statement of financial position.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in consolidated statement of income.

All assets are reviewed for impairment at each reporting date and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Any carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(h) Customers' deposits

Customer deposits are financial liabilities that are initially recognised at fair value less transaction cost, being the fair value of the consideration received, and are subsequently measured at amortised cost.

(i) Provisions

Provisions are recognised when the Bank has present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

(j) Accounting for leases

1. Where the Group is the lessee

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

1. Where the Group is the lessor

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, net of anticipated rental income (if any), is recognised as an expense in the period in which termination takes place.

The Group evaluates non-lease arrangements such as outsourcing and similar contracts to determine if they contain a lease which is then accounted for separately.

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

(k) Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, 'cash and cash equivalents' include notes and coins on hand, balances with SAMA (excluding statutory deposits) and due from banks and other financial institutions with original maturity of 90 days or less from the date of acquisition which are subject to insignificant risk of changes in their fair value.

(l) Short-term employee benefits

Short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided.

(m) Special commission excluded from the consolidated statement of income

In accordance with the Sharia Authority's resolutions, special commission income (non-Sharia compliant income) received by the Bank, is excluded from the determination of financing and investment income of the Bank, and is transferred to other liabilities in the consolidated statement of financial position and is subsequently paid-off to charities institution.

(n) Provisions for employees' end of service benefits

The provision for employees' end of service benefits is accrued using actuarial valuation according to the regulations of Saudi labour law and local regulatory requirements.

(o) Share-based payments

The Bank's founders had established a share-based compensation plan under which the entity receives services from the eligible employees as consideration for equity instruments of the Bank which are granted the employees.

(p) Mudaraba funds

The Group carries out Mudaraba transactions on behalf of its customers, and are treated by the Group as being restricted investments. These are included as off balance sheet items. The Group's share of profits from managing such funds is included in the Group's consolidated statement of income.

(q) Zakat

As per the SAMA Circular No. 381000074519 dated 11 April 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and income tax ("SAMA Circular"), the Zakat and Income tax are to be accrued on a quarterly basis through shareholders equity under retained earnings.

(r) Investment management services

The Bank provides investment management services to its customers, through its subsidiary which include management of certain mutual funds. Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, accordingly, are not included in the Group's consolidated financial statements. The Group's share of these funds is included under FVSI investments. Fees earned are disclosed in the consolidated statement of income.

(s) Bank's products definition

The Bank provides its customers with banking products based on interest avoidance concept and in accordance with Sharia regulations. The following is a description of some of the financing products:

Mutajara financing:

It is a financing agreement whereby the Bank purchases a commodity or an asset and sells it to the client based on a purchase promise from the client with a deferred price higher than the cash price, accordingly the client becomes debtor to the Bank with the sale amount and for the period agreed in the contract.

Instalment sales financing:

It is a financing agreement whereby the Bank purchases a commodity or an asset and sells it to the client based on a purchase promise from the client with a deferred price higher than the cash price. Accordingly the client becomes a debtor to the Bank with the sale amount to be paid through instalments as agreed in the contract.

Istisnaa financing:

It is a financing agreement whereby the Bank contracts to manufacture a commodity with certain known and accurate specifications according to the client's request. The client becomes a debtor to the Bank for the manufacturing price, which includes cost plus profit.

Murabaha financing:

It is a financing agreement whereby the Bank purchases a commodity or asset and sells it to the client with a price representing the purchase price plus a profit known and agreed by the client which means that the client is aware of the cost and profit separately.

4 Cash and Balances with SAMA and Other Central Banks

Cash and balances with SAMA and central banks as of 31 December comprise the following:

	2018 (SAR '000)	2017 (SAR '000)
Cash in hand	8,133,635	8,595,037
Statutory deposit	19,444,194	17,952,252
Current account with SAMA	293,214	425,071
Mutajara with SAMA	15,375,000	21,310,111
Total	43,246,043	48,282,471

In accordance with the Banking Control Law and regulations issued by SAMA, the Bank is required to maintain a statutory deposit with SAMA and central banks at stipulated percentages of its customers' demand deposits, customers' time investment and other customers' accounts calculated at the end of each Gregorian calendar month.

The above statutory deposits are not available to finance the Bank's day-to-day operations and therefore are not considered as part of cash and cash equivalents (Note 24), when preparing the consolidated statement of cash flows.

5 Due from Banks and Other Financial Institutions

Due from banks and other financial institutions as of 31 December comprise the following:

	2018 (SAR '000)	2017 (SAR '000)
Current accounts	778,769	825,908
Mutajara	30,029,242	9,883,887
Total	30,808,011	10,709,795

The table below depicts the quality of due from banks and other financial institutions as at 31 December:

	2018 (SAR '000)	2017 (SAR '000)
Investment grade [credit rating (AAA to BBB-)]	29,801,590	10,142,259
Non-investment grade [credit rating (BB+ to B-)]	750,591	436,360
Unrated	255,830	131,176
Total	30,808,011	10,709,795

The credit quality of due from banks and other financial institutions is managed using external credit rating agencies. The above due from banks and other financial institution balances are neither past due nor impaired.

6 Investments, Net

(a) Investments comprise the following as of 31 December:

	2018 (SAR '000)	2017 (SAR '000)
Investment in an associate	172,753	124,825
Investments held at amortised cost		
Murabaha with Saudi Government and SAMA	22,477,145	23,452,869
Sukuk	17,395,957	10,605,139
Less: Impairment (Stage 1)	(28,337)	–
Total investments held at amortised cost	39,844,765	34,058,008
Investments held as FVSI		
Equity investments	–	23,487
Mutual funds	1,141,584	389,193
Sukuk	800,000	–
Total investments held as FVSI	1,941,584	412,680
FVOCI investments		
Equity investments	1,103,463	771,293
Mutual funds	–	1,034,286
Total FVOCI investments	1,103,463	1,805,579
Investments	43,062,565	36,401,092

The designated FVSI investments included above are designated upon initial recognition as FVSI are in accordance with the documented risk management strategy of the Bank.

All investments held at amortised costs are neither past due nor impaired as of 31 December 2018.

Equity investment securities designated as at FVOCI

At 1 January 2018, the Bank designated its equity securities as at FVOCI. In 2017, these investments were classified as available for sale and FVSI. The FVOCI designation was made because the investments are expected to be held for the long-term for strategic purposes. The Bank does not hold these equity investments for trading purposes.

None of the material strategic investments were disposed of during 2018, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

Notes to the Consolidated Financial Statements

Investment in an associate

The Bank owns 22.5% (31December 2017: 22.5%) shares of Al Rajhi Company for Cooperative Insurance, a Saudi Joint Stock Company.

(b) The analysis of the composition of investments is as follows:

	2018		
	Quoted (SAR '000)	Unquoted (SAR '000)	Total (SAR '000)
Murabaha with SAMA	–	22,477,145	22,477,145
Sukuk	–	18,167,620	18,167,620
Equities	1,251,854	24,362	1,276,216
Mutual funds	–	1,141,584	1,141,584
Total	1,251,854	41,810,711	43,062,565

	2017		
	Quoted (SAR '000)	Unquoted (SAR '000)	Total (SAR '000)
Murabaha with SAMA	–	23,452,869	23,452,869
Sukuk	–	10,605,139	10,605,139
Equities	896,118	23,487	919,605
Mutual funds	–	1,423,479	1,423,479
Total	896,118	35,504,974	36,401,092

(c) The analysis of unrecognised gains and losses and fair values of investments are as follows:

	2018			
	Gross carrying value (SAR '000)	Gross unrecognised gains (SAR '000)	Gross unrecognised losses (SAR '000)	Fair value (SAR '000)
Murabaha with SAMA	22,477,145	1,813	–	22,478,958
Sukuk	18,195,957	–	134,960	18,060,997
Equities	1,276,216	–	–	1,276,216
Mutual funds	1,141,584	–	–	1,141,584
Total	43,090,902	1,813	134,960	42,957,755

	2017			
	Gross carrying value (SAR '000)	Gross unrecognised gains (SAR '000)	Gross unrecognised losses (SAR '000)	Fair value (SAR '000)
Murabaha with SAMA	23,452,869	6,984	–	23,459,853
Sukuk	10,605,139	–	45,503	10,559,636
Equities	919,605	–	–	919,605
Mutual funds	1,423,479	–	–	1,423,479
Total	36,401,092	6,984	45,503	36,362,573

(d) Credit quality of investments

	2018 (SAR '000)	2017 (SAR '000)
Murabaha with SAMA	**22,477,145**	23,452,869
Sukuk – Investment grade	**18,195,957**	10,605,139
Total	**40,673,102**	34,058,008

Investment grade includes those investments having credit exposure equivalent to Standard & Poor's rating of AAA to BBB. The unrated category only comprise unquoted sukuks. Fitch has assigned A+ rating to the KSA as a country, as at 31 December 2018.

(e) The following is an analysis of foreign investments according to investment categories as at 31 December:

	2018 (SAR '000)	2017 (SAR '000)
Investments held at amortised cost		
Sukuk	**1,539,271**	1,545,059
Investments held as FVSI		
Equity investments	**21,282**	21,300
Mutual funds	**562,477**	347,180
Total	**2,123,030**	1,913,539

(f) The following is an analysis of investments according to counterparties as at 31 December:

	2018 (SAR '000)	2017 (SAR '000)
Government and quasi government	23,840,814	24,820,739
Companies	1,279,065	971,969
Banks and other financial institutions	16,829,439	9,184,905
Mutual funds	1,141,584	1,423,479
Less: Impairment	(28,337)	–
Net investments	43,062,565	36,401,092

7 Financing, Net

7.1 Financing

(a) Net financing as of 31 December comprises the following:

	2018			
	Performing (SAR '000)	Non-performing (SAR '000)	Allowance for impairment (SAR '000)	Net financing (SAR '000)
Mutajara	47,552,342	1,024,320	(2,562,159)	46,014,503
Instalment sale	175,407,901	591,541	(4,024,656)	171,974,786
Murabaha	14,671,326	662,570	(1,219,747)	14,114,149
Credit cards	1,973,379	11,881	(25,909)	1,959,351
Total	239,604,948	2,290,312	(7,832,471)	234,062,789

	2017			
	Performing (SAR '000)	Non-performing (SAR '000)	Allowance for impairment (SAR '000)	Net financing (SAR '000)
Mutajara	48,729,890	1,052,534	(2,387,590)	47,394,834
Instalment sale	172,631,262	521,289	(1,938,279)	171,214,272
Murabaha	15,058,355	175,196	(1,221,817)	14,011,734
Credit cards	901,097	21,160	(7,524)	914,733
Total	237,320,604	1,770,179	(5,555,210)	233,535,573

(b) The net financing by location, inside and outside the Kingdom, as of 31 December is as follows:

	2018				
	Mutajara (SAR '000)	Instalment sale (SAR '000)	Murabaha (SAR '000)	Credit cards (SAR '000)	Total (SAR '000)
Description					
Inside the Kingdom	48,576,662	171,615,775	11,108,714	1,978,461	233,279,612
Outside the Kingdom	–	4,383,667	4,225,182	6,799	8,615,648
Gross financing	48,576,662	175,999,442	15,333,896	1,985,260	241,895,260
Allowance for impairment	(2,562,159)	(4,024,656)	(1,219,747)	(25,909)	(7,832,471)
Net financing	46,014,503	171,974,786	14,114,149	1,959,351	234,062,789

	2017				
	Mutajara (SAR '000)	Instalment sale (SAR '000)	Murabaha (SAR '000)	Credit cards (SAR '000)	Total (SAR '000)
Description					
Inside the Kingdom	49,782,424	168,822,412	10,192,559	917,103	229,714,498
Outside the Kingdom	–	4,330,139	5,040,992	5,154	9,376,285
Gross financing	49,782,424	173,152,551	15,233,551	922,257	239,090,783
Allowance for impairment	(2,387,590)	(1,938,279)	(1,221,817)	(7,524)	(5,555,210)
Net financing	47,394,834	171,214,272	14,011,734	914,733	233,535,573

The table below depicts the categories of financing as per main business segments at 31 December:

	2018		
	Retail (SAR '000)	Corporate (SAR '000)	Total (SAR '000)
Mutajara	320,987	48,255,675	48,576,662
Instalment sale	169,178,633	6,820,809	175,999,442
Murabaha	373,612	14,960,284	15,333,896
Credit cards	1,985,260	–	1,985,260
Financing, gross	171,858,492	70,036,768	241,895,260
Less: Allowance for impairment	(4,050,565)	(3,781,906)	(7,832,471)
Financing, net	167,807,927	66,254,862	234,062,789

Notes to the Consolidated Financial Statements

	2017		
	Retail (SAR '000)	Corporate (SAR '000)	Total (SAR '000)
Mutajara	132,645	49,649,779	49,782,424
Instalment sale	164,893,047	8,259,504	173,152,551
Murabaha	414,109	14,819,442	15,233,551
Credit cards	922,257	–	922,257
Financing, gross	166,362,058	72,728,725	239,090,783
Less: Allowance for impairment	(2,023,434)	(3,531,776)	(5,555,210)
Financing, net	164,338,624	69,196,949	233,535,573

(c) The table below summarises financing balances at 31 December that are neither past due nor impaired, past due but not impaired and impaired, as per the main business segments of the Group:

	2018					
	Neither past due nor impaired (SAR '000)	**Past due but not impaired (SAR '000)**	**Impaired (SAR '000)**	**Total (SAR '000)**	**Allowance for impairment (SAR '000)**	**Net financing (SAR '000)**
Retail	**170,978,735**	**276,300**	**603,457**	**171,858,492**	**(4,050,565)**	**167,807,927**
Corporate	**62,082,584**	**6,267,329**	**1,686,855**	**70,036,768**	**(3,781,906)**	**66,254,862**
Total	**233,061,319**	**6,543,629**	**2,290,312**	**241,895,260**	**(7,832,471)**	**234,062,789**

	2017					
	Neither past due nor impaired (SAR '000)	Past due but not impaired (SAR '000)	Impaired (SAR '000)	Total (SAR '000)	Allowance for impairment (SAR '000)	Net financing (SAR '000)
Retail	165,405,592	414,018	542,448	166,362,058	(2,023,434)	164,338,624
Corporate	67,503,558	3,997,436	1,227,731	72,728,725	(3,531,776)	69,196,949
Total	232,909,150	4,411,454	1,770,179	239,090,783	(5,555,210)	233,535,573

Financing past due for less than 90 days is not treated as impaired, unless other available information proves otherwise.

"Neither past due nor impaired" and "past due but not impaired" comprise total performing financing.

7.2 Allowance for impairment of financing

(a) The movement in the allowance for impairment of financing for the years ended 31 December is as follows:

	2018		
	Retail (SAR '000)	Corporate (SAR '000)	Total (SAR '000)
Closing allowance as at 31st December 2017 (calculated under IAS 39)	2,023,434	3,531,776	5,555,210
Amounts restated through opening retained earnings 3A (iii)	1,863,397	1,019,291	2,882,688
Opening impairment allowance as at 1 January 2018 (calculated under IFRS 9)	3,886,831	4,551,067	8,437,898
Charge for the year, net	1,774,673	982,523	2,757,196
Bad debts written off against provision	(1,610,939)	(1,751,684)	(3,362,623)
Balance at the end of the year	4,050,565	3,781,906	7,832,471

	2017		
	Retail (SAR '000)	Corporate (SAR '000)	Total (SAR '000)
Balance at beginning of the year	3,088,691	3,544,010	6,632,701
Charge for the year, net	1,575,624	1,063,367	2,638,991
Bad debts written off against provision	(2,640,881)	(1,075,601)	(3,716,482)
Balance at the end of the year	2,023,434	3,531,776	5,555,210

(b) The following table shows reconciliations from the opening to the closing balance of the impairment allowance for financings to customers at amortised cost.

	2018			
	12 month ECL (SAR '000)	Lifetime ECL not credit impaired (SAR '000)	Lifetime ECL credit impaired (SAR '000)	Total (SAR '000)
Financings to customers at amortised cost				
Balance at 1 January 2018	2,643,679	4,094,076	1,700,143	8,437,898
Transfer to 12 month ECL	411,893	(411,893)	–	–
Transfer to Lifetime ECL not credit impaired	(38,177)	112,134	(73,957)	–
Transfer to Lifetime ECL credit impaired	(8,766)	(329,629)	338,395	–
Charge for the period	138,418	361,338	2,468,622	2,968,378
Write-offs	(497,701)	(465,137)	(2,399,785)	(3,362,623)
Balance as at 31 December 2018	2,649,346	3,360,889	2,033,418	8,043,653

Closing balance as at 31 December 2018 includes impairment allowance related to off balance amounting to SAR 211 Mn. which is accounted for in other liabilities. Closing balance of Lifetime ECL credit impaired differs from total reported Non-Performing Loans (NPL) due to IFRS 9 implementation.

7.3 Impairment charge movement

The details of the impairment charge on financing for the year recorded in the consolidated statement of income is as follows:

	2018 (SAR '000)	2017 (SAR '000)
Charge for the year for on balance sheet	2,968,378	2,638,991
Charge for the year for off balance sheet	(211,182)	–
Recovery of written off financing, net	(1,226,250)	(1,091,414)
Allowance for impairment, net	1,530,946	1,547,577

7.4 Financing include finance lease receivables, which are as follows:

	2018 (SAR '000)	2017 (SAR '000)
Gross receivables from finance lease	30,551,173	33,802,769
Less than 1 year	4,485	1,234,258
1 to 5 years	22,201,101	24,357,231
Over 5 years	8,345,587	8,211,280
	30,551,173	33,802,769
Unearned future finance income on finance lease	(4,593,105)	(4,903,943)
Net receivables from finance lease	25,958,068	28,898,826

8 Property and Equipment, Net

Property and equipment, net comprises the following as of 31 December:

	Land (SAR '000)	Buildings (SAR '000)	Leasehold land and buildings improvements (SAR '000)	Equipment and furniture (SAR '000)	**Total 2018 (SAR '000)**
Cost					
At 1 January 2017	2,009,863	3,219,265	932,383	4,533,276	**10,694,787**
Additions	310,996	459,651	9,288	1,034,027	**1,813,962**
Disposals	(263)	(429)	–	(39,284)	**(39,976)**
At 31 December 2017	2,320,596	3,678,487	941,671	5,528,019	**12,468,773**
Additions	23,229	502,482	34,242	959,949	**1,519,902**
Disposals	–	–	(26,159)	(35,391)	**(61,550)**
At 31 December 2018	**2,343,825**	**4,180,969**	**949,754**	**6,452,577**	**13,927,125**
Accumulated depreciation					
At 1 January 2017	–	352,187	888,632	2,968,806	**4,209,625**
Charge for the year	–	58,684	14,403	367,479	**440,566**
Disposals	–	(430)	–	(39,115)	**(39,545)**
At 31 December 2017	–	410,441	903,035	3,297,170	**4,610,646**
Charge for the year	–	65,388	13,628	363,155	**442,171**
Disposals	–	–	–	(23,279)	**(23,279)**
At 31 December 2018	**–**	**475,829**	**916,663**	**3,637,046**	**5,029,538**
Net book value					
At 31 December 2018	**2,343,825**	**3,705,140**	**33,091**	**2,815,531**	**8,897,587**
At 31 December 2017	2,320,596	3,268,046	38,636	2,230,849	**7,858,127**

Buildings include work-in-progress amounting to SAR 2,172 Mn. as at 31 December 2018 (2017: SAR 1,803 Mn.).

Equipment and furniture includes information technology-related assets having net book value of SAR 2,573 Mn. as at 31 December 2018 (2017: SAR 2,082 Mn.).

9 Investment Properties, Net

Investment properties consist of properties acquired by the Group in the year 2016. The net book value of the investment properties approximates the fair value.

10 Other Assets, Net

Other assets, net comprise the following as of 31 December:

	2018 (SAR '000)	2017 (SAR '000)
Receivables, net	879,916	1,270,554
Prepaid expenses	393,317	714,996
Assets in transit subject to financing	574,905	574,921
Accrued income	273,846	497,979
Cheques under collection	324,636	494,009
Advance payments	266,634	407,982
Other real estate	72,106	147,106
Others, net	843,885	907,917
Total	3,629,245	5,015,464

11 Due to Banks and Other Financial Institutions

Due to banks and other financial institutions comprise the following as of 31 December:

	2018 (SAR '000)	2017 (SAR '000)
Current accounts	925,945	1,066,474
Banks' time investments	6,363,679	4,456,093
Total	7,289,624	5,522,567

12 Customers' Deposits

Customers' deposits by type comprise the following as of 31 December:

	2018 (SAR '000)	2016 (SAR '000)
Demand deposits	268,416,842	251,729,768
Customers' time investments	18,689,225	15,917,263
Other customer accounts	6,803,058	5,409,414
Total	293,909,125	273,056,445

The balance of the other customers' accounts includes margins on letters of credit and guarantees, cheques under clearance and transfers.

Customers' deposits by currency comprise the following as of 31 December:

	2018 (SAR '000)	2016 (SAR '000)
Saudi Arabian Riyals	282,460,829	260,388,240
Foreign currencies	11,448,296	12,668,205
Total	293,909,125	273,056,445

13 – Other Liabilities

Other liabilities comprise the following as of 31 December:

	2018 (SAR '000)	2017 (SAR '000)
Accounts payable	3,602,605	3,436,195
Provision for employees' end of service benefits (see Note 25)	901,970	848,422
Accrued expenses	974,599	837,597
Charities (see Note 31)	56,350	16,854
Zakat payable	6,348,660	–
Other	3,366,879	3,647,530
Total	15,251,063	8,786,598

14 – Share Capital

The authorised, issued and fully paid share capital of the Bank consists of 1,625 million shares of SAR 10 each (2017: 1,625 million shares of SAR 10 each).

15 – Statutory and Other Reserves

The Banking Control Law in Saudi Arabia and the By-Laws of the Bank require a transfer to statutory reserve at a minimum of 25% of the annual net income for the year. Such transfers continue until the reserve equals the paid up share capital. This reserve is presently not available for distribution.

Previously, the Bank was recording the amount of Zakat it calculates in other reserves until the final amount of Zakat payable can be determined.

Notes to the Consolidated Financial Statements

As a major event, during the year, the Bank reach a settlement agreement with the General Authority for Zakat & Income Tax (GAZT), to settle the Zakat Liability amounting to SAR 5,405,270,925 for previous years and until the end of the financial year 2017. The settlement agreement requires the Bank to settle the 20% of the agreed Zakat liability in the current year and the remaining to be settled over the period of five years. Accordingly the Bank have adjusted Zakat for the previous years and until the end of financial year 2017 through its retained earnings. As a result of the settlement agreement the Bank have agreed to withdraw all of the previous appeals which were filed with the competent authority with respect to Zakat. Furthermore, Zakat for 2018 is amounted to SAR 943,389,178. In addition, there is 48 million has been paid related to ZAKAT 2017 and other payment.

In addition, other reserves includes FVOCI investments reserve, foreign currency translation reserve and employee share plan.

The movements in FVOCI investments, foreign currency reserves, and employee share plan are summarised as follows:

	2018			
	FVOCI investments (SAR '000)	Foreign currency translation (SAR '000)	Employee share plan (SAR '000)	Total (SAR '000)
Balance at beginning of the year	(80,130)	(74,311)	37,110	(117,331)
Impact of adopting IFRS 9	(129,789)	–	–	(129,789)
Net change in fair value	(49,798)	–	–	(49,798)
Exchange difference on translation of foreign operations	–	(52,637)	–	(52,637)
Balance at the end of the year	(259,717)	(126,948)	37,110	(349,555)

	2017			
	Available-for-sale investments (SAR '000)	Foreign currency translation (SAR '000)	Employee share plan (SAR '000)	Total (SAR '000)
Balance at the beginning of the year	58,179	(147,935)	37,110	(52,646)
Net change in fair value	201,825	–	–	201,825
Net amount transferred to consolidated statement of income	(340,134)	–	–	(340,134)
Exchange difference on translation of foreign operations	–	73,624	–	73,624
Balance at the end of the year	(80,130)	(74,311)	37,110	(117,331)

16 Commitments and Contingencies

(a) Legal proceedings

As at 31 December 2018, there were certain legal proceedings outstanding against the Bank in the normal course of business including those relating to the extension of credit facilities. Such proceedings are being reviewed by the concerned parties.

Provisions have been made for some of these legal cases based on the assessment of the Bank's legal advisors.

(b) Capital commitments

As at 31 December 2018, the Bank had capital commitments of SAR 170 million (2017: SAR 629 million) relating to contracts for computer software update and development, and SAR 65 million (2017: SAR 410 million) relating to building new workstation, and development and improvement of new and existing branches.

(c) Credit related commitments and contingencies

The primary purpose of these instruments is to ensure that funds are available to customers as required. Credit related commitments and contingencies mainly comprise letters of guarantee, standby letters of credit, acceptances and unused commitments to extend credit. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet his obligations to third parties, carry the same credit risk as financing.

Letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate, and therefore, carry less risk. Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be presented before being reimbursed by the customers.

Cash requirements under guarantees and letters of credit are considerably less than the amount of the commitment because the Bank does not expect the third party to draw necessarily funds under the agreement.

Commitments to extend credit represent unused portions of authorisation to extended credit, principally in the form of financing, guarantees and letters of credit.

(d) Credit related commitments and contingencies

With respect to credit risk relating to commitments to extend unused credit, the Bank is potentially exposed to a loss in an amount which is equal to the total unused commitments. The likely amount of loss, which cannot be reasonably estimated, is expected to be considerably less than the total unused commitments, since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire without being funded.

Notes to the Consolidated Financial Statements

1. The contractual maturities of the Bank's commitments and contingent liabilities are as follows at 31 December:

	2018				
	Less than 3 months (SAR '000)	From 3 to 12 months (SAR '000)	From 1 to 5 years (SAR '000)	Over 5 years (SAR '000)	Total (SAR '000)
Letters of credit	562,899	417,925	1,945	–	982,769
Acceptances	261,183	208,706	–	–	469,889
Letters of guarantee	1,270,202	2,405,041	1,159,962	41,956	4,877,161
Irrevocable commitments to extend credit	2,459,684	2,901,726	855,965	265,061	6,482,436
Total	4,553,968	5,933,398	2,017,872	307,017	12,812,255

	2017				
	Less than 3 months (SAR '000)	From 3 to 12 months (SAR '000)	From 1 to 5 years (SAR '000)	Over 5 years (SAR '000)	Total (SAR '000)
Letters of credit	1,027,240	82,382	68,626	–	1,178,248
Acceptances	313,137	117,327	–	–	430,464
Letters of guarantee	1,790,856	1,986,680	1,183,423	8,396	4,969,355
Irrevocable commitments to extend credit	875,279	2,983,742	2,969,064	161,284	6,989,369
Total	4,006,512	5,170,131	4,221,113	169,680	13,567,436

2. The analysis of commitments and contingencies by counterparty is as follows as at 31 December:

	2018 (SAR '000)	2017 (SAR '000)
Corporates	11,704,696	10,728,656
Banks and other financial institutions	1,107,559	2,838,780
Total	12,812,255	13,567,436

(d) Operating lease commitments

The future minimum lease payments under non-cancelable operating leases, where the Bank is the lessee, are as follows as at 31 December:

	2018 (SAR '000)	2017 (SAR '000)
Less than 1 year	400	41,163
1 to 5 years	234,652	197,712
Over 5 years	52,458	56,362
Total	287,510	295,237

17 Net Financing and Investment Income

Net financing and investment income for the years ended 31 December comprises the following:

	2018 (SAR '000)	2017 (SAR '000)
Financing		
Corporate Mutajara	2,176,364	2,049,915
Instalment sale	9,055,152	8,533,438
Murabaha	684,999	691,807
Investments and other		
Murabaha with SAMA	1,092,878	673,238
Mutajara with banks	563,249	517,212
Income from sukuk	186,815	115,394
Gross financing and investment income	13,759,457	12,581,004
Return on customers' time investments	(346,796)	(360,084)
Return on due to banks and financial institutions' time investments	(159,928)	(191,503)
Return on customers', banks' and financial institutions' time investments	(506,724)	(551,587)
Net financing and investment income	13,252,733	12,029,417

18 Fee From Banking Services, Net

Fee from banking services, net for the years ended 31 December comprise the following:

	2018 (SAR '000)	2017 (SAR '000)
Fee income:		
Financing related	1,334,378	1,060,165
Drafts and remittances	397,142	437,953
Credit cards	499,007	400,823
Other electronic channel related	920,795	821,598
Brokerage and Asset Management	398,725	335,706
Other	362,150	358,759
Total fee income	3,912,197	3,415,004
Fee expenses:		
ATM Interchange related	(810,911)	(717,796)
Fee from banking services, net	3,101,286	2,697,208

19 Other Operating Income

Other operating income for the years ended 31 December comprises the following:

	2018 (SAR '000)	2017 (SAR '000)
Dividend income	39,852	30,176
(Loss)/Gain on sale of property and equipment, net	(115)	594
Rental income from investment property	115,280	81,592
Share in earnings of associate	47,928	35,545
Gain/(loss) on investments held as FVSI	14,600	12,635
Income from sale of various investments	–	3,374
Loss on sale of other real state	(32,000)	–
Gain on sale of equity investment	–	72,144
Other income, net	24,150	100,330
Total	209,695	336,390

20 Salaries and Employees' Related Benefits

The following tables provide an analysis of the salaries and employees' related benefits for the years ended 31 December:

	2018			
			Variable compensations paid	
	Number of employees	Fixed compensation (SAR '000)	Cash (SAR '000)	Shares
Executives	17	31,515	18,352	35,712
Employees engaged in risk-taking activities	1,460	391,876	57,459	15,818
Employees engaged in control functions	463	146,484	32,964	15,534
Other employees	11,592	1,876,868	197,110	18,360
Total	13,532	2,446,743	305,885	85,424
Accrued fixed compensations in 2018		148,136	–	–
Other employees' costs		214,570	–	–
Gross total	13,532	2,809,449	305,885	85,424

Notes to the Consolidated Financial Statements

	2017			
			Variable compensations paid	
	Number of employees	Fixed compensation (SAR '000)	Cash (SAR '000)	Shares
Executives	18	29,328	18,588	30,577
Employees engaged in risk-taking activities	1,486	384,212	63,815	17,155
Employees engaged in control functions	363	169,956	27,097	12,221
Other employees	11,210	1,769,152	171,720	17,468
Total	13,077	2,352,648	281,220	77,421
Accrued fixed compensations in 2018		241,622	–	–
Other employees' costs		219,648	–	–
Gross total	13,077	2,813,918	281,220	77,421

Salaries and employees' related benefits include end of services, General Organisation for Social Insurance, business trips, training and other benefits.

As the Kingdom of Saudi Arabia is part of the G-20, instructions were given to all financial institutions in the Kingdom to comply with the standards and principles of Basel II and the Financial Stability Board.

SAMA, as the regulatory for financial institutions in Saudi Arabia, issued regulations on compensations and bonus in accordance with the standards and principles of Basel II and the Financial Stability Board.

In light of the above SAMA's regulations, the Bank issued compensation and bonuses policy which was implemented after the Board of Directors approval.

The scope of this policy is extended to include the Bank and its subsidiary companies (local and international) that are operating in the financial service sector. Accordingly, it includes all official employees, permanent and temporary contracted employees and service providers (contribution in risk position if SAMA allows the use of external resources).

For consistency with other banking institutions in the Kingdom of Saudi Arabia, the Bank has used a combination of fixed and variable compensation to attract and maintain talent. The fixed compensation is assessed on a yearly basis by comparing it to other local banks in the Kingdom of Saudi Arabia including the basic salaries, allowance and benefits which is related to the employees' ranks. The variable compensation is related to the employees performance and their compatibility to achieve the agreed on objectives. It includes incentives, performance bonus and other benefits. Incentives are mainly paid to branches' employees whereby the performance bonuses are paid to head office employees and others who do not qualify for incentives.

These bonuses and compensation are approved by the Board of Directors as a percentage of the Bank's income.

Notes to the Consolidated Financial Statements

21 Other General and Administrative Expenses

Other general and administrative expenses for the years ended 31 December comprises the following:

	2018 (SAR '000)	2017 (SAR '000)
Communications & Utilities Expenses	356,061	310,007
Maintenance & Security Expenses	415,660	400,168
Cash Feeding & Transfer Expenses	327,112	329,331
Software & IT Support Expenses	178,317	161,396
Other Operational Expenses	648,368	470,150
Total	1,925,518	1,671,052

22 Earnings Per Share

Earnings per share for the years ended 31 December 2018 and 2017 have been calculated by dividing the net income for the year by the weighted average number of shares outstanding. The weighted average number of ordinary shares outstanding during the year is the number of ordinary shares outstanding at the beginning of the year, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor, if any. The time-weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the year.

23 Paid and Proposed Gross Dividends and Zakat

The Bank distributed dividends for the first half of 2018 amounting to SAR 3,250,000 thousand (i.e. SAR 2 per share) (2017: SAR 2,437,500 thousand (i.e. SAR 1.5 per share). Also the Bank proposed final dividends for the year 2018 amounting to SAR 3,656,250 thousand (i.e. SAR 2.25 per share) (2017: SAR 4,062,500 thousand i.e. SAR 2.5 per share).

24 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 in hand	8,133,635	8,595,037
Due from banks and other financial institutions maturing within 90 days from the date of purchased	5,984,654	891,976
Balances with SAMA and other central banks (current accounts)	293,214	425,071
Mutajara with SAMA	15,375,000	21,310,111
Total	29,786,503	31,222,195

25 Employee Benefit Obligations

25.1 General description

The Bank operates an end of service benefit plan for its employees based on the prevailing Saudi Labour Laws. Accruals are made in accordance with the actuarial valuation under the projected unit credit method while the benefit payments obligation is discharged as and when it falls due.

25.2 The amounts recognised in the statement of financial position and movement in the obligation during the year based on its present value are as follows:

	2018 (SAR '000)	2017 (SAR '000)
Defined benefit obligation at the beginning of the year	848,422	761,671
Current service cost	107,685	97,475
Interest cost	85,995	34,579
Benefits paid	(140,132)	(74,824)
Remeasurement loss/(gain)	–	29,521
Defined benefit obligation at the end of the year	901,970	848,422

25.3 Charge/(reversal) for the year

	2018 (SAR '000)	2017 (SAR '000)
Current service cost	106,152	97,475
Past service cost	1,533	–
	107,685	97,475

25.4 Remeasurement recognised in other comprehensive income

	2018 (SAR '000)	2017 (SAR '000)
(Gain)/loss from change in demographic assumptions	–	601
(Gain)/loss from change in experience assumptions	–	20,094
(Gain)/loss from change in financial assumptions	–	8,826
	–	29,521

25.5 Principal actuarial assumptions (in respect of the employee benefit scheme)

	2018	2017
Discount rate	5.00%	4.50%
Expected rate of salary increase	3.00%	3.50%
Normal retirement age	60 years for male employees and 55 for female employees	60 years for male employees and 55 for female employees

Assumptions regarding future mortality are set based on actuarial advice in accordance with the published statistics and experience in the region.

25.6 Sensitivity of actuarial assumptions

The table below illustrates the sensitivity of the defined benefit obligation valuation as at 31 December 2018 to the discount rate (5%), salary escalation rate (3.00%), withdrawal assumptions and mortality rates.

2018	Impact on defined benefit obligation – Increase/(Decrease)		
Base Scenario	Change in assumption	Increase in assumption (SAR '000)	Decrease in assumption (SAR '000)
Discount rate	+/- 100 basis points	(96,511)	115,452
Expected rate of salary increase	+/- 100 basis points	117,256	(99,217)
Normal retirement age	Increase or decrease by 20%	9,020	(10,824)

2017	Impact on defined benefit obligation – Increase/(Decrease)		
Base Scenario	Change in assumption	Increase in assumption (SAR '000)	Decrease in assumption (SAR '000)
Discount rate	+/- 100 basis points	(84,916)	121,031
Expected rate of salary increase	+/- 100 basis points	120,796	(86,419)
Normal retirement age	Increase or decrease by 20%	13,800	(3,252)

The above sensitivity analyses are based on a change in an assumption holding all other assumptions constant.

25.7 Expected maturity

Expected maturity analysis of undiscounted defined benefit obligation for the end of service plan is as follows:

As at 31 December 2018	Less than a year	1-2 years	2-5 years	Over 5 years	Total
901,970	61,300	71,836	244,884	572,808	950,828

The weighted average duration of the defined benefit obligation is 15 years.

26 Operating Segments

The Bank identifies operating segments on the basis of internal reports about the activities of the Bank that are regularly reviewed by the chief operating decision-maker, principally the Chief Executive Officer, in order to allocate resources to the segments and to assess its performance.

For management purposes, the Bank is organised into the following four main businesses segments:

Retail segment:	Includes individual customer deposits, credit facilities, customer debit current accounts (overdrafts) and fees from banking services.
Corporate segment:	Incorporates deposits of VIP, corporate customers deposits, credit facilities, and debit current accounts (overdrafts).
Treasury segment:	Includes treasury services, Murabaha with SAMA and international Mutajara portfolio and remittance business.
Investment services and brokerage segments:	Includes investments of individuals and corporates in mutual funds, local and international share trading services and investment portfolios.

Transactions between the above segments are on normal commercial terms and conditions. Assets and liabilities for the segments comprise operating assets and liabilities, which represents the majority of the Bank's assets and liabilities.

Notes to the Consolidated Financial Statements

(a) The Bank's total assets and liabilities, together with its total operating income and expenses, and net income, as of and for the years ended 31 December for each segment are as follows:

	2018				
	Retail segment (SAR '000)	Corporate segment (SAR '000)	Treasury segment (SAR '000)	Investment services and brokerage segment (SAR '000)	Total (SAR '000)
Total assets	187,897,978	62,102,390	111,970,301	3,033,161	365,003,830
Total liabilities	273,503,541	18,947,567	23,868,335	130,369	316,449,812
Financing and investments income from external customers	8,968,075	2,790,552	1,976,310	24,520	13,759,457
Inter-segment operating income/(expense)	1,154,739	(697,360)	(457,379)	–	–
Gross financing and investment income	10,122,814	2,093,192	1,518,931	24,520	13,759,457
Return on customers', banks' and financial institutions' time investments	(124,676)	(213,870)	(159,928)	(8,250)	(506,724)
Net financing and investment income	9,998,138	1,879,322	1,359,003	16,270	13,252,733
Fees from banking services, net	1,848,899	570,304	283,358	398,725	3,101,286
Exchange income, net	143,513	40,892	571,399	–	755,804
Other operating income, net	25,019	–	62,699	121,977	209,695
Total operating income	12,015,569	2,490,518	2,276,459	536,972	17,319,518
Depreciation	(415,035)	(7,358)	(14,009)	(5,769)	(442,171)
Impairment charge for financing, net	(1,177,409)	(302,894)	(50,643)	–	(1,530,946)
Other operating expenses	(4,095,037)	(322,513)	(490,076)	(141,908)	(5,049,534)
Total operating expenses	(5,687,481)	(632,765)	(554,728)	(147,677)	(7,022,651)
Net income for the year	6,328,088	1,857,753	1,721,731	389,295	10,296,867

	2017				
	Retail segment (SAR '000)	Corporate segment (SAR '000)	Treasury segment (SAR '000)	Investment services and brokerage segment (SAR '000)	Total (SAR '000)
Total assets	183,869,949	63,535,245	92,783,499	2,927,835	343,116,528
Total liabilities	249,429,672	21,288,466	16,107,112	540,360	287,365,610
Financing and investments income from external customers	8,230,257	2,862,192	1,466,239	22,316	12,581,004
Inter-segment operating income/(expense)	984,000	(648,377)	(335,623)	–	–
Gross financing and investment income	9,214,257	2,213,815	1,130,616	22,316	12,581,004
Return on customers', banks' and financial institutions' time investments	(75,531)	(240,145)	(235,911)	–	(551,587)
Net financing and investment income	9,138,726	1,973,670	894,705	22,316	12,029,417
Fees from banking services, net	1,758,574	573,605	37,114	327,915	2,697,208
Exchange income, net	427,996	50,714	363,129	–	841,839
Other operating income, net	131,306	–	105,063	100,021	336,390
Total operating income	11,456,602	2,597,989	1,400,011	450,252	15,904,854
Depreciation	(410,957)	(10,866)	(12,834)	(5,910)	(440,566)
Impairment charge for financing, net	(1,191,115)	(355,917)	(545)	–	(1,547,577)
Other operating expenses	(3,985,776)	(460,695)	(218,634)	(130,880)	(4,795,985)
Total operating expenses	(5,587,847)	(827,478)	(232,013)	(136,790)	(6,784,128)
Net income for the year	5,868,755	1,770,511	1,167,998	313,462	9,120,726

(b) The Group's credit exposure by business segments as of 31 December is as follows:

	2018				
	Retail segment (SAR '000)	Corporate segment (SAR '000)	Treasury segment (SAR '000)	Investment services and brokerage segment (SAR '000)	Total (SAR '000)
Consolidated balance sheet assets	158,519,040	52,392,321	94,463,095	2,558,909	307,933,365
Commitments and contingencies excluding irrevocable commitments to extend credit	–	6,329,819	–	–	6,329,819

	2017				
	Retail segment (SAR '000)	Corporate segment (SAR '000)	Treasury segment (SAR '000)	Investment services and brokerage segment (SAR '000)	Total (SAR '000)
Consolidated balance sheet assets	164,609,073	62,660,677	51,727,163	2,927,835	281,924,748
Commitments and contingencies excluding irrevocable commitments to extend credit	–	6,776,468	–	–	6,776,468

27 Financial Risk Management

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the banking business, and these risks are an inevitable consequence of participating in financial markets. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank's risk management policies, procedures and systems are designed to identify and analyse these risks and to set appropriate risk mitigates and controls. The Bank reviews its risk management policies and systems on an ongoing basis to reflect changes in markets, products and emerging best practices.

Risk management is performed by the Credit and Risk Management Group ("CRMG") under policies approved by the Board of Directors. The CRMG identifies and evaluates financial risks in close co-operation with the Bank's operating units. The most important types of risks identified by the Bank are credit risk, liquidity risk and market risk. Market risk includes currency risk, profit rate risk, operational risk and price risk.

27.1 Credit risk

Credit risk is considered to be the most significant and pervasive risk for the Bank. The Bank takes on exposure to credit risk, which is the risk that the counter-party to a financial transaction will fail to discharge an obligation causing the Bank to incur a financial loss. Credit risk arises principally from financing (credit facilities provided to customers) and from cash and deposits held with other banks. Further, there is credit risk in certain off-balance sheet financial instruments, including guarantees relating to purchase and sale of foreign currencies, letters of credit, acceptances and commitments to extend credit. Credit risk monitoring and control is performed by the CRMG which sets parameters and thresholds for the Bank's financing activities.

(a) Credit risk measurement

(i) Financing

The Bank has structured a number of financial products which are in accordance with Sharia law in order to meet the customers demand. These products are all classified as financing assets in the Bank's consolidated statement of financial position. In measuring credit risk of financing at a counterparty level, the Bank considers the overall credit worthiness of the customer based on a proprietary risk methodology. This risk rating methodology utilises a 10 point scale based on quantitative and qualitative factors with seven performing categories (rated 1 to 7) and three non-performing categories (rated 8-10). The risk rating process is intended to advise the various independent approval authorities of the inherent risks associated with the counterparty and assist in determining suitable pricing commensurate with the associated risk.

Specific provisions are evaluated individually for all different types of financing, whereas additional provisions are evaluated based on collective impairment of financing, and are created for credit losses where there is objective evidence that the unidentified potential losses are present at the reporting date. The amount of the specific provision is the difference between the carrying amount and the estimated recoverable amount. The collective provision is based upon deterioration in the internal credit ratings allocated to the borrower or group of borrowers. These internal grading take into consideration factors such as the current economic condition in which the borrowers operate. Any deterioration in country risk, industry, as well as identified structural weaknesses or deterioration in cash flows.

(ii) Credit risk grades

For corporate exposures, the Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each corporate exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring of corporate exposure involves use of the following data.

- Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections.
- Data from credit reference agencies, press articles, changes in external credit ratings.
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.

(iii) 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 Bank collects performance and default information about its customers analysed by segment as well as by credit risk grading.

The Bank employs analytical techniques incorporating internal default estimates backed by transition matrices published by external agencies to construct PD term structures that can be applied to each exposure based on the its remaining lifetime. These PD tern structures are then adjusted to incorporate the impact of macroeconomic outlook to arrive at a forward looking estimate of PD across the lifetime.

For retail exposure, borrower and loan specific information collected at the time of application, repayment behaviour etc. are used to construct risk based segmentation using Chi-square Automatic Interaction Detection (CHAID) (or Decision Tree) technique. Risk segments are constructed to identify and aggregate customer with similar risk characteristics. For each risk segment thus formed, PD term structures are constructed using historical data that can be applied to each exposure based on its remaining lifetime.

Based on consideration of a variety of external actual and forecast information from published sources, the Bank formulates a forward looking adjustment to PD term structures to arrive at forward looking PD estimates across the lifetime using macro economic models.

Risk rating 1

Exceptional – Obligors of unquestioned credit standing at the pinnacle of credit quality.

Risk rating 2

Excellent – Obligors of the highest quality, presently and prospectively. Virtually no risk in lending to this class, Cash flows reflect exceptionally large and stable margins of protection. Projected cash flows including anticipated credit extensions indicate strong liquidity levels and debt service coverage. Balance Sheet parameters are strong, with excellent asset quality in terms of value and liquidity.

Risk rating 3

Superior – Typically obligors at the lower end of the high quality range with excellent prospects. Very good asset quality and liquidity. Consistently strong debt capacity and coverage. There could however be some elements, which with a low likelihood might impair performance in the future.

Risk rating 4

Good – Typically obligors in the high end of the medium range who are definitely sound with minor risk characteristics. Elements of strength are present in such areas as liquidity, stability of margins, cash flows, diversity of assets, and lack of dependence on one type of business.

Risk rating 5

Satisfactory – These are obligors with smaller margins of debt service coverage and with some elements of reduced strength. Satisfactory asset quality, liquidity, and good debt capacity and coverage. A loss year or declining earnings trend may occur, but the borrowers have sufficient strength and financial flexibility to offset these issues.

Risk rating 6

Adequate – Obligors with declining earnings, strained cash flow, increasing leverage and/or weakening market fundamentals that indicate above average risk, such borrowers have limited additional debt capacity, modest coverage, average or below average asset quality and market share. Present borrower performance is satisfactory, but could be adversely affected by developing collateral quality/adequacy etc.

Risk rating 7

Very high risk – Generally undesirable business constituting an undue and unwarranted credit risk but not to the point of justifying a substandard classification. No loss of principal or profit has taken place. Potential weakness might include a weakening financial condition, an unrealistic repayment program, inadequate sources of funds, or a lack of adequate collateral, credit information or documentation. The entity is undistinguished and mediocre. No new or incremental credits will generally be considered for this category.

Risk rating 8

Substandard – Obligors in default and 90 Days Past Due on repayment of their obligations. Unacceptable business credit. Normal repayment is in jeopardy, and there exists well defined weakness in support of the same. The asset is inadequately protected by the current net worth and paying capacity of the obligor or pledged collateral. Specific provision raised as an estimate of potential loss.

Risk rating 9

Doubtful – Obligors in default and 180 Days Past Due (DPD) on their contracted obligations, however in the opinion of the management recovery/ salvage value against corporate and real estate obligors is a possibility, and hence write-off should be deferred. Full repayment questionable. Serious problems exist to the point where a partial loss of principle is likely. Weaknesses are so pronounced that on the basis of current information, conditions and values, collection in full is highly improbable. Specific provision raised as an estimate of potential loss. However, for retail obligors (except real estate) and credit cards, total loss is expected. A 100% Specific Provisioning must be triggered followed by the write-off process should be effected as per Al Rajhi Bank write-off policy.

Risk rating 10

Loss – Obligors in default and 360 Days Past Due (DPD) on their obligations. Total loss is expected. An uncollectible assets which does not warrant classification as an active asset. A 100% Specific Provisioning must be triggered followed by the write-off process should be effected as per Al Rajhi Bank write-off policy.

(iv) ECL – Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

For Corporate portfolio, the Bank's assessment of significant increase in credit risk is based on facility level except for watch-list accounts whereby Bank assessment is based on counterparty. Significant increase in credit risk assessment for retail loans is carried out at customer level within same product family. All the exposures which are considered to have significantly increased in credit risk are subject to lifetime ECL.

The Bank considers all investment grade debt securities issued by sovereigns including Gulf Corporation Council (GCC) countries to have low credit risk.

(v) Determining whether credit risk has increased significantly

In determining whether credit risk has increased significantly since initial recognition, the Bank uses its internal credit risk grading system, external risk ratings, quantitative changes in PDs, delinquency status of accounts, expert credit judgement and, where possible, relevant historical experience.

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition base on quantitative assessment and/or using its expert credit judgment and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- The criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- The criteria do not align with the point in time when an asset becomes 30 days past due; and
- There is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

The Bank classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below:

Stage 1 for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Bank recognises an allowance based on the 12-month ECL. All accounts at origination would be classified as Stage 1.

Stage 2 for financial instruments where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired, the Bank recognises an allowance for the lifetime ECL for all financings categorised in this stage based on the actual/expected behavioural maturity profile including restructuring or rescheduling of facilities.

Stage 3 for credit-impaired financial instruments, the Bank recognises the lifetime ECL. Default identification process i.e. DPD of 90 or more is used as stage 3.

(vi) Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy.

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities' to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of profit payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

Forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired/ in default. A customer needs to demonstrate consistently good payment behaviour over a period of 12 months before the exposure is no longer considered to be credit-impaired/ in default.

(vii) Definition of "Default"

The Bank considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- The borrower is past due more than 90 days on any material credit obligation to the Bank.

Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

In assessing whether a borrower is in default. the Bank considers indicators that are:

- Qualitative – e.g. breaches of covenant;
- Quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- Based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

(viii) Incorporation of forward looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on consideration of a variety of external actual and forecast information from published sources, the Bank formulates a forward looking adjustment to PD term structures to arrive at forward looking PD estimates across the lifetime using macroeconomic models.

The Bank considers scenarios in range of 3-5 years horizon (consistent with forecast available from public sources) beyond which long term average macroeconomic conditions prevail. Externally available macroeconomic forecast from International Monetary Fund (IMF) and Saudi Arabian Monetary Authority (SAMA) are used for making base case forecast. For other scenarios, adjustment are made to base case forecast based on expert judgement.

The base case represents a most-likely outcome as published by external sources. The other scenarios represent more optimistic and more pessimistic outcomes.

Economic Indicators	Weightage 2018 %
GDP growth rate	56.29
Government expenditure to GDP	43.71

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data.

(ix) Measurement of ECL

The Bank measures an ECL at an individual instrument level taking into account the projected cash flows, PD, LGD, CCF and discount rate.

The key inputs into the measurement of ECL are the term structure of the following variables:

i. probability of default (PD);

ii. loss given default (LGD);

iii.exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

For Retail portfolio, bank uses internal LGD models to arrive at the LGD estimates. For Corporate portfolio, bank used supervisory estimates of LGD.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

The period of exposure limits the period over which possible defaults are considered and thus affects the determination of PDs and measurement of ECLs (especially for Stage 2 accounts with lifetime ECL).

(x) Credit quality analysis

(a) The following table sets out information about the credit quality of Financings measured at amortised cost.

	2018			
	12 month ECL (SAR '000)	Life time ECL not credit impaired (SAR '000)	Lifetime ECL credit impaired (SAR '000)	Total (SAR '000)
Carrying amount distribution by Grades				
Grade 1-3/(Aaa - A3)	8,322,229	–	–	8,322,229
Grade (4-6)/(Baa1 - B3)	44,981,511	12,217,422	–	57,198,933
Grade 7- Watch list/(Caa1 – C)	–	2,918,751	–	2,918,751
Non-performing	–	–	1,686,855	1,686,855
Total Corporate and non-performing	53,213,740	15,136,173	1,686,855	70,036,768
Total Retail (un-rated)	168,182,212	3,072,823	603,457	171,858,492
Total Carrying amount	221,395,952	18,208,996	2,290,312	241,895,260

(xi) Financings

(a) The net financing concentration risks and the related provision, by major economic sectors at 31 December are as follows:

Description	2018 Performing (SAR '000)	2018 Non-Performing (SAR '000)	2018 Allowance for impairment (SAR '000)	2018 Net financing (SAR '000)
Commercial	19,670,493	746,180	(618,139)	19,798,534
Industrial	28,007,663	774,347	(696,112)	28,085,898
Building and construction	3,442,028	71,682	(82,411)	3,431,299
Consumer	171,255,069	603,423	(470,400)	171,388,092
Services	16,295,853	80,751	(75,584)	16,301,020
Agriculture and fishing	467,960	–	–	467,960
Others	465,882	13,929	(6)	479,805
Total	239,604,948	2,290,312	(1,942,652)	239,952,608
Collective allowance for impairment			(5,889,819)	(5,889,819)
Balance			(7,832,471)	234,062,789

Description	2017 Performing (SAR '000)	2017 Non-Performing (SAR '000)	2017 Allowance for impairment (SAR '000)	2017 Net financing (SAR '000)
Commercial	26,967,699	513,822	(263,818)	27,217,703
Industrial	19,443,855	564,975	(518,704)	19,490,126
Building and construction	3,504,017	107,193	(178,804)	3,432,406
Consumer	165,819,609	542,448	(641,327)	165,720,730
Services	20,099,055	41,741	(25,689)	20,115,107
Agriculture and fishing	1,464,247	–	–	1,464,247
Others	22,122	–	–	22,122
Total	237,320,604	1,770,179	(1,628,342)	237,462,441
Collective allowance for impairment			(3,926,868)	(3,926,868)
Balance			(5,555,210)	233,535,573

(b) The tables below set out the aging of financing past due but not impaired as of 31 December:

Age	Mutajara (SAR '000)	Instalment sale (SAR '000)	Credit cards (SAR '000)	Total (SAR '000)
	2018			
up to 30 days	5,640,509	180,122	–	5,820,631
31-60 days	338,418	40,829	12,700	391,947
61-90 days	288,367	26,209	16,475	331,051
Total	6,267,294	247,160	29,175	6,543,629
Fair value of collateral	485,726	–	–	485,726

Age	Mutajara (SAR '000)	Instalment sale (SAR '000)	Credit cards (SAR '000)	Total (SAR '000)
	2017			
up to 30 days	2,645,513	256,582	–	2,902,095
31-60 days	437,734	82,667	10,627	531,028
61-90 days	914,189	51,569	12,573	978,331
Total	3,997,436	390,818	23,200	4,411,454
Fair value of collateral	594,752	–	–	594,752

The Banks in the ordinary course of lending activities hold collaterals as security to mitigate credit risk in financings . These collaterals mostly include time, demand, and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. Real estate collaterals against financing are considered as held for sale and included in other assets.

The collaterals are held mainly against commercial and consumer loans and are managed against relevant exposures at their net realisable values. For financial assets that are credit impaired at the reporting period, quantitative information about the collateral held as security is needed to the extent that such collateral mitigates credit risk.

(c) The table below sets out gross balances of individually impaired financing, together with the fair value of related collateral held by the Group as at 31 December:

	Retail (SAR '000)	Corporate (SAR '000)	Total (SAR '000)
	2018		
Individually impaired financing	603,457	1,686,855	2,290,312
Fair value of collateral	–	485,726	485,726

	Retail (SAR '000)	Corporate (SAR '000)	Total (SAR '000)
	2017		
Individually impaired financing	542,448	1,227,731	1,770,179
Fair value of collateral	–	594,752	594,752

(d) The table below stratify credit exposures from corporate financing by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the financing or the amount committed for loan commitments to the value of the collateral. The gross amounts exclude any impairment allowance.

	2018 (SAR '000)	2017 (SAR '000)
Less than 50%	**7,368,209**	2,965,647
51-70%	**12,531,682**	5,490,525
71-90%	**20,630,702**	8,113,447
91-100%	**17,198,582**	35,060,621
More than 100%	**2,492,999**	986,265
Total exposure	**60,222,174**	52,616,505

(b) Settlement risk

The Bank is also exposed to settlement risk in its dealings with other financial institutions. This risk arises when the Bank pays its side of the transaction to the other bank or counterparty before receiving payment from the third party. The risk is that the third party may not pay its obligation. While these exposures are short in duration but they can be significant. The risk is mitigated by dealing with highly rated counterparties, holding collateral and limiting the size of the exposures according to the risk rating of the counterparty.

(c) Risk limit control and mitigation policies

The responsibility for credit risk management is enterprise-wide in scope. Strong risk management is integrated into daily processes, decision making and strategy setting, thereby making the understanding and management of credit risk the responsibility of every business segment. The following business units within the Bank assist in the credit control process:

- Corporate Credit Unit
- Credit Administration, Monitoring and Control Unit
- Remedial Unit
- Credit Policy Unit
- Retail Credit Unit

The monitoring and management of credit risk associated with these financing are made by setting approved credit limits. The Bank manages limits and controls concentrations of credit risk wherever they are identified - in particular, to individual customers and groups, and to industries and countries.

Concentrations of credit risks arise when a number of customers are engaged in similar business activities, activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risks indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

The Bank seeks to manage its credit risk exposure through diversification of its financing to ensure there is no undue concentration of risks with to individuals or groups of customers in specific geographical locations or economic sectors.

The Bank manages credit risk by placing limits on the amount of risk accepted in relation to individual customers and groups, and to geographic and economic segments. Such risks are monitored on a regular basis and are subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, economic sector and by country are reviewed at least annually by the executive committee.

Exposure to credit risk is also managed through regular analysis on the ability of customers and potential customers to meet financial and contractual repayment obligations and by revising credit limits where appropriate.

Some other specific control and mitigation measures are outlined below:

c.1 Collateral

The Bank implements guidelines on the level and quality of specific classes of collateral, The principal collateral types are:

- Mortgages over residential and commercial properties.
- Cash, shares, and general assets for customer.
- Shares for Murabaha (collateralised share trading) transactions.

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as traditional banking products of the Bank.

Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying goods to which they relate, and therefore, risk is partially mitigated.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of further financing products, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

(d) Impairment and provisioning policies

Allowance for impairment is recognised for financial reporting purposes only for stage 3 losses that have been incurred at the statement of financial position date based on objective evidence of impairment, and management judgment.

The table below sets out the maximum exposure to credit risk at the reporting date without considering collateral or other credit enhancements and includes the off-balance sheet financial instruments involving credit risks as at 31 December:

	2018 (SAR '000)	2017 (SAR '000)
On-balance sheet items Investments:		
Murabaha with Saudi Government and SAMA	22,477,145	23,452,869
Sukuk	18,195,957	10,605,139
Due from banks and other financial institutions	30,808,011	10,709,795
Financing, net		
Corporate	66,254,862	69,196,949
Retail	167,807,927	164,338,624
Total on-balance sheet items	305,543,902	278,303,376
Off-balance sheet items:		
Letters of credit and acceptances	1,452,658	1,608,712
Letters of guarantee	4,877,161	4,969,355
Irrevocable commitments to extend credit	6,482,436	6,989,368
Total off-balance sheet items	12,812,255	13,567,435
Maximum exposure to credit risk	318,356,157	291,870,811

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2018 and 2017, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the consolidated statement of financial position.

27.2 Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay deposits and financing parties and fulfil financing commitments. Liquidity risk can be caused by market disruptions or by credit downgrades, which may cause certain sources of funding to become unavailable immediately. Diverse funding sources available to the Bank help mitigate this risk. Assets are managed with liquidity in mind, maintaining a conservative balance of cash and cash equivalents.

Liquidity risk management process

The Bank's liquidity management process is as monitored by the Bank's Asset and Liabilities Committee (ALCO), includes:

- Day-to-day funding, managed by Treasury to ensure that requirements can be met and this includes replenishment of funds as they mature or are invested;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements;
- Managing the concentration and profile of debt maturities;
- Maintain diversified funding sources; and
- Liquidity management and asset and liability mismatching.

Monitoring and reporting take the form of analysing cash flows of items with both contractual and non-contractual maturities. The net cash flows are measured and ensured that they are within acceptable ranges. The Treasury/ ALCO also monitors, the level and type of undrawn lending commitments, usage of overdraft facilities and the potential impact of contingent liabilities such as standby letters of credit and guarantees may have on the Bank's liquidity position.

The tables below summarise the maturity profile of the Bank's assets and liabilities, on the basis of the remaining maturity as of the consolidated statement of financial position date to the contractual maturity date.

Management monitors the maturity profile to ensure that adequate liquidity is maintained, Assets available to meet all of the liabilities and to cover outstanding financing commitments include cash, balances with SAMA and due from banks. Further, in accordance with the Banking Control Law and Regulations issued by SAMA, the Bank maintains a statutory deposit equal to a sum not less than 7% of total customers' deposits, and 4% of total other customers' accounts. In addition to the statutory deposit, the Bank maintains a liquid reserve of not less than 20% of the deposit liabilities, in the form of cash, gold or assets which can be converted into cash within a period not exceeding 30 days. Also, the Bank has the ability to raise additional funds through special financing arrangements with SAMA including deferred sales transactions.

The contractual maturities of financial assets and liabilities as of 31 December based on discounted cash flows are as follows. The table below reflect the expected cash flows indicated by the deposit retention history of the Group. Management monitors rolling forecast of the Group's liquidity position and cash and cash equivalents on the basis of expected cash flows. This is carried out in accordance with practice and limits set by the Group and based on the pattern of historical deposit movement. In addition, the Group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

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	2018					
	Less than 3 months (SAR '000)	3 to 12 months (SAR '000)	1 to 5 years (SAR '000)	Over 5 years (SAR '000)	No Fixed Maturity (SAR '000)	Total (SAR '000)
Assets						
Cash and balance with SAMA and central banks	35,490,644	–	–	–	7,755,399	43,246,043
Due from banks and other financial institutions	10,569,683	8,273,620	10,908,457	–	1,056,251	30,808,011
Financing, net						
Corporate Mutajara	14,480,073	15,127,724	13,950,532	2,456,174	–	46,014,503
Instalment sale	10,769,129	30,019,044	101,794,885	29,391,728	–	171,974,786
Murabaha	1,193,548	4,462,625	5,665,908	2,792,068	–	14,114,149
Credit cards	1,959,351	–	–	–	–	1,959,351
Investments						
Investment in an associate	–	–	–	–	172,753	172,753
Investments held at amortised cost	370,447	213,900	14,118,036	25,142,380	–	39,844,765
Investments held as FVSI	–	1,941,584	–	–	–	1,941,584
FVOCI investments	–	–	–	1,103,463	–	1,103,463
Other assets, net	–	–	–	–	13,824,422	13,824,422
Total	74,832,876	60,038,498	146,437,818	61,058,566	22,636,073	365,003,830
Liabilities						
Due to banks and other financial institutions	3,951,361	2,583,028	–	–	755,235	7,289,624
Demand deposits	19,701,796	32,451,597	173,021,496	43,241,953	–	268,416,842
Customers' time investments	17,027,753	1,661,472	–	–	–	18,689,225
Other customer accounts	1,662,667	1,359,251	3,781,140	–	–	6,803,058
Other liabilities	–	–	–	–	15,251,063	15,251,063
Total Liabilities	42,343,577	38,055,348	176,802,636	43,241,953	16,006,297	316,449,812
Gap	32,489,299	21,983,150	(30,364,818)	17,816,613	6,629,775	48,554,019

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	2017					
	Less than 3 months (SAR '000)	3 to 12 months (SAR '000)	1 to 5 years (SAR '000)	Over 5 years (SAR '000)	No Fixed Maturity (SAR '000)	Total (SAR '000)
Assets						
Cash and balance with SAMA and central banks	39,758,880	–	–	–	8,523,591	48,282,471
Due from banks and other financial institutions	1,240,890	6,019,134	1,349,887	1,123,040	976,844	10,709,795
Financing, net						
Corporate Mutajara	3,496,901	31,085,237	6,603,136	6,209,560	–	47,394,834
Instalment sale	3,252,120	37,121,858	109,151,183	21,689,108	–	171,214,269
Murabaha	4,812,673	3,318,574	3,173,356	2,707,131	–	14,011,734
Credit cards	914,733	–	–	–	–	914,733
Investments						
Investment in an associate	–	–	–	–	124,825	124,825
Investments held at amortised cost	999,925	–	7,135,000	25,923,083	–	34,058,008
Investments held as FVSI	–	–	389,193	–	–	389,193
FVOCI investments	–	–	–	1,829,066	–	1,829,066
Other assets, net	–	–	–	–	2,262,542	2,262,542
Total	54,476,122	77,544,806	127,801,755	59,480,988	11,887,802	331,191,470
Liabilities						
Due to banks and other financial institutions	4,772,259	–	–	–	750,308	5,522,567
Demand deposits	18,476,965	30,434,129	162,265,008	40,553,666	–	251,729,768
Customers' time investments	14,502,218	1,415,045	–	–	–	15,917,263
Other customer accounts	1,322,061	1,080,801	3,006,552	–	–	5,409,414
Other liabilities	7,921,322	–	–	–	–	7,921,322
Total	46,994,825	32,929,975	165,271,560	40,553,666	750,308	286,500,334
Gap	7,481,297	44,614,828	(37,469,805)	18,927,322	11,137,494	44,691,136

The following tables disclose the maturity of contractual financial liabilities on undiscounted cash flows as at 31 December:

	2018					
	Less than 3 months (SAR '000)	3 to 12 months (SAR '000)	1 to 5 years (SAR '000)	Over 5 years (SAR '000)	No fixed maturity (SAR '000)	Total (SAR '000)
Due to banks and other financial institutions	3,957,968	2,602,328	–	–	763,202	7,323,498
Customer deposits	41,238,211	36,835,111	175,521,784	43,065,449	–	296,660,555
Other liabilities	–	–	–	–	15,276,565	15,276,565
Total	45,196,179	39,437,439	175,521,784	43,065,449	16,039,767	319,260,618

	2017					
	Less than 3 months (SAR '000)	3 to 12 months (SAR '000)	1 to 5 years (SAR '000)	Over 5 years (SAR '000)	No fixed maturity (SAR '000)	Total (SAR '000)
Due to banks and other financial institutions	4,780,239	–	–	–	757,436	5,537,675
Customer deposits	39,389,542	33,037,784	160,724,895	42,449,658	–	275,601,879
Other liabilities	–	–	–	–	7,934,568	7,934,568
Total	44,169,781	33,037,784	160,724,895	42,449,658	8,692,004	289,074,122

The cumulative maturities of commitments and contingencies are given in Note 16 (c) 1 of the consolidated financial statements.

27.3 Market risks

The Bank is exposed to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risks arise on profit rate products, foreign currency and mutual fund products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as profit rates, foreign exchange rates and quoted market prices.

Market risk exposures are monitored by Treasury/Credit and Risk department and reported to ALCO on a monthly basis. ALCO deliberates on the risks taken and ensure that they are appropriate.

(a) Market risks – Speculative operations

The Bank is not exposed to market risks from speculative operations. The Bank is committed to Sharia guidelines which does not permit it to enter into contracts or speculative instruments such as hedging, options, forward contracts and derivatives.

(b) Market risks – Banking operations

The Bank is exposed to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risks arise on profit rate products, foreign currency and mutual fund products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as profit rates, foreign exchange rates and quoted market prices.

Profit rate risk

Cash flow profit rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market profit rates. The Bank does not have any significant exposure to the effects of fluctuations in prevailing level of market profit rates on its future cash flows as a significant portion of profit earning financial assets and profit bearing liabilities are at fixed rates and are carried in the financial statements at amortised cost. In addition to this, a substantial portion of the Bank's financial liabilities are non-profit bearing.

Commission rate risk arises from the possibility that the changes in profit rates will affect either the fair values or the future cash flows of the financial instruments. The Board has established commission rate gap limits for stipulated periods. The Bank monitors positions daily and uses gap management strategies to ensure maintenance of positions within the established gap limits.

The following table depicts the sensitivity to a reasonable possible change in profit rates, with other variables held constant, on the Bank's statement of income or equity. The sensitivity of the income is the effect of the assumed changes in profit rates on the net income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at 31 December 2018 and 2017. The sensitivity of equity is same as sensitivity of income since the Bank does not have fixed rate FVOCI financial assets as at 31 December 2018 and 2017. 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	Sensitivity of gross financing and investment income			
		As at 31 December (SAR Mn.)	Average (SAR Mn.)	Maximum for (SAR Mn.)	Minimum (SAR Mn.)
SAR	+25	201	204	216	193

	Decrease in basis	Sensitivity of gross financing and investment income			
Currency		As at 31 December (SAR Mn.)	Average (SAR Mn.)	Maximum for (SAR Mn.)	Minimum (SAR Mn.)
SAR	-25	(201)	(204)	(216)	(193)

		2017			
Currency	Increase in basis	Sensitivity of gross financing and investment income			
		As at 31 December (SAR Mn.)	Average (SAR Mn.)	Maximum for (SAR Mn.)	Minimum (SAR Mn.)
SAR	+25	202	191	209	169

	Decrease in basis	Sensitivity of gross financing and investment income			
Currency		As at 31 December (SAR Mn.)	Average (SAR Mn.)	Maximum for (SAR Mn.)	Minimum (SAR Mn.)
SAR	-25	(202)	(191)	(209)	(169)

**Profit rate movements affect reported equity through retained earnings, i.e. increases or decreases in financing and investment income.*

Commission sensitivity of assets, liabilities and off balance sheet items

	2018						
	Less than 3 months (SAR '000)	3 to 6 months (SAR '000)	6 to 12 months (SAR '000)	1 to 5 years (SAR '000)	Over 5 years (SAR '000)	Non-Commission Sensitive	Total (SAR '000)
Assets							
Cash and balance with SAMA	35,112,408	–	–	–	–	8,133,635	43,246,043
Due from banks and other financial institutions	11,306,178	987,681	7,810,067	9,647,834	–	1,056,251	30,808,011
Investments							
Investment in an associate	–	–	–	–	–	172,753	172,753
Investments held at amortised cost	23,952,560	–		13,318,036	2,574,169	–	39,844,765
Investments held as FVSI	–	–		–	1,941,584		1,941,584
Available-for-sale investments	–	–		–	1,103,463	–	1,103,463
Financing, net							
Corporate Mutajara	17,239,834	19,924,825	3,958,429	4,891,415	–	–	46,014,503
Instalment sale	13,409,580	13,669,220	21,812,332	99,409,717	23,673,937	–	171,974,786
Murabaha	4,064,638	4,406,381	182	4,784,157	858,791	–	14,114,149
Credit cards	1,959,351	–	–	–	–	–	1,959,351
Other assets	–	–	–	–	–	13,824,422	13,824,422
Total assets	107,044,549	38,988,108	33,581,010	132,051,159	30,151,944	23,187,061	365,003,830
Liabilities							
Due to banks and other financial institutions	6,534,389	–	–	–	–	755,235	7,289,624
Customer deposits	53,768,764	12,293,302	23,253,246	179,101,531	–	–	268,416,843
Customers' time investments	17,027,753	213,057	1,448,415	–	–	–	18,689,225
Other customer accounts	1,362,776	311,575	589,356	4,539,350	–	–	6,803,057
Other liabilities	–	–	–	–	–	15,251,063	15,251,063
Total liabilities	78,693,681	12,817,934	25,291,017	183,640,881	–	16,006,298	316,449,812
Gap	28,350,868	26,170,174	8,289,993	(51,589,722)	30,151,944	7,180,763	48,554,018
Profit rate sensitivity – On statement of financial positions	28,350,868	26,170,174	8,289,993	(51,589,722)	30,151,944	7,180,763	48,554,018
Profit rate sensitivity – Off statement of financial positions	439,043	–	–	–	–	–	439,043
Total profit rate sensitivity gap	27,911,825	26,170,174	8,289,993	(51,589,722)	30,151,944	7,180,763	48,114,975
Cumulative profit rate sensitivity gap	27,911,825	54,081,999	62,371,992	10,782,270	41,990,464	48,114,975	90,228,289

The Bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market commission rates on its financial position and cash flows.

The Board sets limits on the level of mismatch of commission rate reprising that may be undertaken, which is monitored daily by Bank Treasury.

The table below summarises the Bank's exposure to profit rate risks. Included in the table are the Bank's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

The Bank is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or re-price in a given period. The Bank manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

	2017						
	Less than 3 months (SAR '000)	3 to 6 months (SAR '000)	6 to 12 months (SAR '000)	1 to 5 years (SAR '000)	Over 5 years (SAR '000)	Non Commission Sensitive	Total (SAR '000)
Assets							
Cash and balance with SAMA	39,687,434	–	–	–	–	8,595,037	48,282,471
Due from banks and other financial institutions	2,217,734	113,993	5,905,141	1,349,887	–	1,123,040	10,709,795
Investments							
Investment in an associate	–	–	–	–	–	124,825	124,825
Investments held at amortised cost	23,300,000	2,025,000	–	7,135,000	1,598,008	–	34,058,008
Investments held as FVSI	–	–	–	–	389,193		389,193
Available-for-sale investments	–	–	–	–	1,829,066	–	1,829,066
Financing, net							
Corporate Mutajara	15,075,878	19,326,741	3,443,515	7,637,634	1,911,066	–	47,394,834
Instalment sale	19,190,499	10,039,850	18,901,845	104,625,719	18,456,359	–	171,214,272
Murabaha	3,768,368	2,666,288	1,687,143	3,178,456	2,711,479	–	14,011,734
Credit cards	914,733	–	–	–	–	–	914,733
Other assets	–	–	–	–	–	4,537,079	4,537,079
Total assets	104,154,647	34,171,873	29,937,642	123,926,696	26,895,171	14,379,981	333,466,010
Liabilities							
Due to banks and other financial institutions	4,772,259	–	–	–	–	750,308	5,522,567
Customer deposits	50,426,040	11,529,046	21,807,626	167,967,056	–		251,729,768
Customers' time investments	14,885,092	91,881	940,423	–	–	–	15,917,263
Other customer accounts	1,083,604	247,747	468,623	3,609,439			5,409,414
Other liabilities	–	–	–	–	–	8,455,319	8,455,319
Total liabilities	71,166,995	11,868,674	23,216,672	171,576,495	–	9,205,627	287,034,463

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	2017						
	Less than 3 months (SAR '000)	3 to 6 months (SAR '000)	6 to 12 months (SAR '000)	1 to 5 years (SAR '000)	Over 5 years (SAR '000)	Non Commission Sensitive	Total (SAR '000)
Gap	32,987,652	22,303,199	6,720,970	(47,649,799)	26,895,171	5,174,354	46,431,547
Profit rate sensitivity – On statement of financial positions	32,987,652	22,303,199	6,720,970	(47,649,799)	26,895,171	5,174,354	46,431,547
Profit rate sensitivity – Off statement of financial positions	472,420	–	–	–	–	–	472,420
Total profit rate sensitivity gap	32,515,232	22,303199	6,720,970	(47,649,799)	26,895,171	5,174,354	45,959,127
Cumulative profit rate sensitivity gap	32,515,232	50,538,583	58,740,173	13,056,216	41,907,813	–	87,071,372

The tables below summarise the Bank's exposure to foreign currency exchange rate risk at 31 December 2018 and 2017 and the concentration of currency risks. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency:

	2018							
	UAE Dirham (SAR '000)	Japanese Yen (SAR '000)	Euro (SAR '000)	Malaysian Ringgit (SAR '000)	US Dollar (SAR '000)	Pound Sterling (SAR '000)	Other (SAR '000)	Total (SAR '000)
Assets								
Cash and cash equivalents	25,946	–	29,291	193,088	568,393	15,538	504,016	1,336,273
Due from banks and other financial institutions	117,748	5,302	145,528	520,081	1,979,909	30,803	721,623	3,520,994
Financing, net	–	–	–	4,564,609	5,077,371	–	3,778,869	13,420,848
Investments	–	–	375	1,305,296	1,132,989	–	255,390	2,694,050
Fixed assets	1,226	–	6,578	41,423	269,965	993	36,782	356,966
Other assets, net	–	–	1,258	174,711	63,244	332	17,209	256,754
Total assets	144,919	5,302	183,029	6,799,208	9,091,871	47,665	5,313,890	21,585,885
Liabilities								
Due to banks and other financial institutions	71	–	5,169	569,557	3,304,930	17	(564,139)	3,315,605
Customer deposits	9,629	2,284	109,079	5,146,634	1,268,627	48,735	4,863,308	11,448,296
Other liabilities	17,305	699	97,032	117,000	695,523	8,882	196,799	1,133,241
Total liabilities	27,005	2,983	211,280	5,833,192	5,269,080	57,634	4,495,969	15,897,143
Net	117,914	2,319	28,250	966,017	3,822,791	(9,969)	817,921	5,688,743

	2017							
	UAE Dirham (SAR '000)	Japanese Yen (SAR '000)	Euro (SAR '000)	Malaysian Ringgit (SAR '000)	US Dollar (SAR '000)	Pound Sterling (SAR '000)	Other (SAR '000)	Total (SAR '000)
Assets								
Cash and cash equivalents	25,828	–	23,232	356,412	370,979	21,031	587,309	1,384,791
Due from banks and other financial institutions	72,459	3,393	195,812	858,354	554,364	33,096	705,180	2,422,658
Financing, net	–	–	393	1,634,458	864,990	–	257,432	2,757,273
Investments	–	–	–	5,522,749	4,389,826	–	3,724,296	13,636,871
Fixed assets	55	–	5,174	42,091	142,676	549	36,702	227,247
Other assets, net	–	–	655	191,139	61,125	(24)	34,003	286,898
Total assets	98,342	3,393	225,266	8,605,203	6,383,960	54,652	5,344,922	20,715,738
Liabilities								
Due to banks and other financial institutions	12,176	–	2,085	1,100,092	493,262	18	501,812	2,109,445
Customer deposits	3,711	2,639	186,830	6,865,588	1,054,707	56,596	4,498,133	12,668,204
Other liabilities	13,926	910	60,415	91,245	414,488	7,750	218,845	807,579
Total liabilities	29,813	3,549	249,330	8,056,925	1,962,457	64,364	5,218,790	15,585,228
Net	68,529	(156)	(24,064)	548,278	4,421,503	(9,712)	126,132	5,130,510

Foreign currency risks

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Bank management has set limits on positions by currencies, which are regularly monitored to ensure that positions are maintained within the limits.

The table below shows the currencies to which the Bank has a significant exposure as at 31 December 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 statement of income (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity. A positive effect shows a potential increase in the statement of income statement of income or equity, whereas a negative effect shows a potential net reduction in the statement of income or statement of changes in shareholders' equity.

Notes to the Consolidated Financial Statements

Currency exposures as at 31 December 2018	Change in currency rate in %	Effect on net income (SAR Mn.)	Effect on equity (SAR Mn.)
AED	+/-2	2,358	2,358
USD	+/-2	76,146	76,146
EUR	+/-5	-768	-768
INR	+/-5	1,813	1,813
PKR	+/-5	547	547

Currency exposures as at 31 December 2017	Change in currency rate in %	Effect on net income (SAR million)	Effect on equity (SAR million)
AED	+/-2	2.12	2.12
USD	+/-2	88.66	88.66
EUR	+/-5	-0.98	-0.98
INR	+/-5	0.40	0.40
PKR	+/-5	0.87	0.87

Currency position

The Bank manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intraday positions, which are monitored daily. At the end of the year, the Bank had the following significant net exposures denominated in foreign currencies:

	2018 (SAR '000) (Long/(short)	2017 (SAR '000) (Long/(short)
US Dollar	3,807,308	4,432,919
Japanese Yen	2,319	-157
Euro	-15,364	-19,569
Pound Sterling	-7,569	-9,713
Others	282,013	115,844
Total	**4,068,707**	4,519,324

(c) Price risk

The Bank has certain investments which are carried at fair value through the income statement (FVSI) and includes investments in quoted mutual funds and other investments. Price risk arises due to changes in quoted market prices of these mutual funds.

As these investments are in a limited number of funds and are not significant to the total investment portfolio, the Bank monitors them periodically and determines the risk of holding them based on changes in market prices.

Other investments have little or no risks as these are bought for immediate sales. Investments are made only with a confirmed sale order and therefore involve minimal risk.

- **Equity price risk**

Equity risk refers to the risk of decrease in fair values of equities in the Bank's non-trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks.

The effect on the Bank's equity investments held as FVOCI/available-for-sale due to reasonable possible change in prices, with all other variables held constant is as follows:

	31 December 2018		31 December 2017	
Local Market indices	Change in equity price %	Effect in SAR million	Change in equity price %	Effect in SAR million
Local Share Equity	+ /- 10	+/- 107,910	+ /- 10	+/- 77,129

(d) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems, and external events.

Operational risk is inherent in most of the Bank's activities this necessitates an integrated approach to the identification, measurement and monitoring of operational risk.

An Operational Risk Management Unit (ORMU) has been established within the Credit and Risk Management Group which facilitates the management of Operational Risk within the Bank. ORMU facilitates the management of Operational Risk by setting policies, developing systems, tools and methodologies, overseeing their implementation and use within the business units and providing ongoing monitoring and guidance across the Bank.

The three primary operational risk management processes in the Bank are Risk Control Self Assessment, Operational Loss Database and eventual implementation of Key Risk Indicators which are designed to function in a mutually reinforcing manner.

28 – Geographical Concentration

(a) The distribution by the geographical region of the major categories of assets, liabilities, commitments, contingencies and credit exposure accounts as of 31 December is as follows:

	2018						
	Kingdom of Saudi Arabia (SAR '000)	Other GCC and Middle East (SAR '000)	Europe (SAR '000)	North America (SAR '000)	South East Asia (SAR '000)	Other Countries (SAR '000)	Total (SAR '000)
Assets							
Cash and balances with SAMA and central banks	43,169,276	56,311	–	–	20,456	–	43,246,043
Due from banks and other financial institutions	9,224,158	19,835,928	755,337	61,154	919,489	11,945	30,808,011
Financing, net							
Corporate Mutajara	42,890,888	1,023,541	2,100,074	–	–	–	46,014,503
Instalment sale	167,591,118	2,885,814	–	–	1,497,854	–	171,974,786
Murabaha	9,018,760	1,932,928	–	–	3,162,461	–	14,114,149
Credit cards	1,952,552	5,575	–	–	1,224	–	1,959,351
Investments, net							
Investment in an associate	172,753	–	–	–	–	–	172,753
Investments held at amortised cost	38,132,001	349,095	–	–	1,363,669	–	39,844,765
Investments held as FVSI	1,896,758	33,234	375	–	11,217	–	1,941,584
FVOCI investments	1,103,463	–	–	–	–	–	1,103,463
Total	315,151,727	26,122,426	2,855,786	61,154	6,976,370	11,945	351,179,408
Liabilities							
Due to banks and other financial institutions	6,401,763	44,133	–	329,267	514,461	–	7,289,624
Customer deposits	284,200,248	4,847,634	–	–	4,860,064	1,179	293,909,125
Total	290,602,011	4,891,767	–	329,267	5,374,525	1,179	301,198,749
Commitments and contingencies	6,141,044	98,315	2,262	–	88,198	–	6,329,819
Credit exposure (stated at credit equivalent value)	4,401,104	–	–	–	2,081,332	–	6,482,436

Notes to the Consolidated Financial Statements

	2017						
	Kingdom of Saudi Arabia (SAR '000)	Other GCC and Middle East (SAR '000)	Europe (SAR '000)	North America (SAR '000)	South East Asia (SAR '000)	Other Countries (SAR '000)	Total (SAR '000)
Assets							
Cash and balances with SAMA and central banks	47,364,215	563,370	–	–	354,887	–	48,282,472
Due from banks and other financial institutions	2,873,774	6,298,191	233,716	271,962	1,030,678	1,474	10,709,795
Financing, net							
Corporate Mutajara	45,733,013	–	1,661,821	–	–	–	47,394,834
Instalment sale	166,922,446	2,553,313	–	–	1,680,651	–	171,156,410
Murabaha	9,003,654	1,167,348	–	–	3,840,732	–	14,011,734
Credit cards	889,808	3,789	–	–	1,365	–	894,962
Investments, net							
Investment in an associate	124,825	–	–	–	–	–	124,825
Investments held at amortised cost	32,512,949	177,189	–	–	1,367,870	–	34,058,008
Investments held as FVSI	2,188	288,893	393	–	121,206	–	412,680
FVOCI investments	1,636,474	168,191	–	–	915		1,805,580
Total	307,140,977	11,220,284	1,895,930	271,962	8,398,304	1,474	328,928,931
Liabilities							
Due to banks and other financial institutions	4,371,081	422,487	6,615	251,218	467,968	3,198	5,522,567
Customer deposits	261,776,977	4,429,765	–	–	6,849,703	–	273,056,445
Total	266,148,058	4,852,252	6,615	251,218	7,317,671	3,198	278,579,012
Commitments and contingencies	10,167,478	406,234	2,818	–	2,989,605	1,300	13,567,435
Credit exposure (stated at credit equivalent value)	5,109,109	178,503	1,409	–	1,486,847	600	6,776,468

(b) The distributions by geographical concentration of non-performing financing and allowance for impairment of financing as of 31 December are as follows:

	2018			
	Kingdom of Saudi Arabia (SAR '000)	GCC and Middle East (SAR '000)	South East of Asia (SAR '000)	Total (SAR '000)
Non-performing				
Corporate Mutajara	991,751	5,959	26,610	1,024,320
Instalment sale	534,309	14,942	16,969	591,541
Murabaha	536,865	108,621	17,084	662,570
Credit cards	11,874	–	7	11,881
Allowance for impairment of financing				
Corporate Mutajara	(837,349)	(2,066)	(2,958)	(842,373)
Instalment sale	(453,000)	(10,185)	(4,244)	(467,429)
Murabaha	(504,296)	(108,500)	(17,084)	(629,880)
Credit cards	(2,970)	–	–	(2,970)

	2017			
	Kingdom of Saudi Arabia (SAR '000)	GCC and Middle East (SAR '000)	South East of Asia (SAR '000)	Total (SAR '000)
Non-performing				
Corporate Mutajara	1,217,981	–	4,333	1,222,314
Instalment sale	495,193	14,827	11,267	521,287
Murabaha	–	–	5,418	5,418
Credit cards	19,168	–	1,992	21,160
Allowance for impairment of financing				
Corporate Mutajara	(982,385)	–	(3,609)	(985,994)
Instalment sale	(620,357)	(10,149)	(4,491)	(634,997)
Murabaha	–	–	(1,020)	(1,020)
Credit cards	(4,792)	–	(1,539)	(6,331)

Refer to Note 7 (a) for performing financing.

29 Fair Value of Financial Assets and Liabilities

Determination of fair value and fair value hierarchy

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

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

Level 2: Quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data.

Level 3: Valuation techniques for which any significant input is not based on observable market data.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction takes place either:

- In the accessible principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous accessible market for the asset or liability.

Carrying amounts and fair value:

The following table shows the carrying amount and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	31 December 2018				
	Carrying value (SAR '000)	Level 1 (SAR '000)	Level 2 (SAR '000)	Level 3 (SAR '000)	Total (SAR '000)
Financial assets					
Financial assets measured at fair value					
Investments held at FVSI	1,141,584	–	1,141,584	–	1,141,584
FVOCI investment	1,103,463	1,079,101	–	24,362	1,103,463
Sukuk	800,000	–	–	800,000	800,000
Financial assets not measured at fair value					
Due from banks and other financial institutions	30,808,011	–	–	30,701,027	30,701,027
Investments held at amortised cost					
– Murabaha with Saudi Government and SAMA	22,477,145	–	–	22,478,958	22,478,958
– Sukuk	17,395,957	–	–	17,274,997	17,274,997
Gross financing	241,895,260	–	–	242,364,635	242,364,635
Total	315,621,420	1,079,101	1,141,584	313,643,979	315,864,664
Financial liabilities					
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	7,289,624	–	–	7,287,557	7,287,557
Customers' deposits	293,909,125	–	–	293,909,125	293,909,125
Total	301,198,749	–	–	301,196,682	301,196,682

	31 December 2017				
	Carrying value (SAR '000)	Level 1 (SAR '000)	Level 2 (SAR '000)	Level 3 (SAR '000)	Total (SAR '000)
Financial assets					
Financial assets measured at fair value					
Investments held at FVSI	412,680	–	389,193	23,487	412,680
Available-for-sale investments	1,805,579	771,293	1,034,286	–	1,805,579
Financial assets not measured at fair value					
Due from banks and other financial institutions	10,709,795	–	–	10,698,223	10,698,223
Investments held at amortised cost					
– Murabaha with SAMA	23,452,869	–	–	23,459,853	23,459,853
– Sukuk	10,605,139	–	–	10,559,636	10,559,636
Gross Financing	239,090,783	–	–	248,834,350	248,834,350
Total	286,076,845	771,293	1,423,479	293,575,549	295,770,321
Financial liabilities					
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	5,522,567	–	–	5,522,554	5,522,554
Customers' deposits	273,056,445	–	–	273,056,440	273,056,440
Total	278,579,012	–	–	278,578,994	278,578,994

FVSI and FVOCI investments classified as Level 2 include mutual funds, the fair value of which is determined based on the latest reported net assets value (NAV) as at the date of statement of consolidated financial position.

The Level 3 financial assets measured at fair value represent investments recorded at cost. The carrying value of these investments approximate fair value.

Gross financing classified as Level 3 has been valued using expected cash flows discounted at relevant SIBOR as at 31 December 2018. Investments held at amortised cost, due to/from banks and other financial institution have been valued using the actual cash flows discounted at relevant SIBOR/SAMA Murabaha rates as at 31 December 2018.

The value obtained from the relevant valuation model may differ from the transaction price of a financial instrument. The difference between the transaction price and the model value commonly referred to as "day one profit and loss" is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable data, or realised through disposal. Subsequent changes in fair value are recognised immediately in the statement of income without reversal of deferred day one profits and losses.

During the current year, no financial assets/liabilities have been transferred between Level 1 and/or Level 2 fair value hierarchy.

30 – Related Party Transactions

In the ordinary course of business, the Bank transacts business with related parties. The related party transactions are governed by limits set by the Banking Control Law and the regulations issued by SAMA. The nature and balances resulting from such transactions as at and for the year ended 31 December are as follows:

	2018 (SAR '000)	2017 (SAR '000)
Related parties		
Members of the Board of Directors		
Mutajara	69,967	39,163
Contingent liabilities*	16,634	–
Current accounts	77,788	586
Companies and establishments guaranteed by members of the Board of Directors		
Mutajara	10,242,942	1,585,464
Contingent liabilities*	6,913,183	16,334
Other major shareholders (above 5% equity share)		
Mutajara	–	3,308,232
Contingent liabilities*	–	–
Current accounts	–	–
Other liabilities	–	26,067
Associate		
Contributions receivable	252,706	121,017
Payable against claims	144,640	150,243
Bank balances	274,705	289,236

off balance sheet items.

Income and expenses pertaining to transactions with related parties included in the consolidated financial statements for the years ended 31 December are as follows:

	2018 (SAR '000)	2017 (SAR '000)
Income from financing and other	**139,496**	194,190
Mudaraba fees	**68,272**	49,860
Employees' salaries and benefits (air tickets)	**4,142**	4,253
Rent and premises related expenses	**2,238**	1,131
Contribution – Policies written	**1,059,392**	1,339,545
Claims incurred and notified during the period	**900,207**	1,139,983
Claims paid	**905,840**	1,023,048
Board of Directors' remunerations	**5,945**	5,418

The amounts of compensations recorded in favour of or paid to the Board of Directors and the Executive Management Personnel during the years ended 31 December are as follows:

	2018 (SAR '000)	2017 (SAR '000)
Short-term benefits	**85,579**	37,866
Provision for end of service benefits	**11,536**	1,280

The executive management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Banks directly or indirectly.

31 Mudaraba Funds

Mudaraba funds as of 31 December comprise the following:

	2018 (SAR '000)	2017 (SAR '000)
Customers' Mudaraba and investments	**21,070,580**	21,199,185
Current accounts, metals	–	2,031
Total	**21,070,580**	21,201,216

Mudaraba and investments represents customer's investment portfolio managed by Al Rajhi Capital Company and are considered as off balance sheet. consistent with the accounting policies of the Group, such balances are not included in the consolidated financial statements as these are held by the Group in fiduciary capacity.

32 Special Commissions Excluded from the Consolidated Statement of Income

The following represents the movements in charities account, which is included in other liabilities (see Note 13):

	2018 (SAR '000)	2017 (SAR '000)
Balance at beginning of the year	**16,854**	23,785
Additions during the year	**40,520**	5,201
Payments made during the year	**(1,024)**	(12,132)
Balance at end of the year	**56,350**	16,854

33 Investment Management Services

The Group offers investment services to its customers. The Group has established a number of Mudaraba funds in different investment aspects. These funds are managed by the Bank's Investment Department, and a portion of the funds is also invested in participation with the Group. The Group also offers investment management services to its customers through its subsidiary, which include management of funds with total assets under management of SAR 41,294 Mn. (2017: SAR 26,595 Mn.). The mutual funds are not controlled by the Bank and neither are under significant influence to be considered as associates. Mutual funds' financial statements are not included in the consolidated statement of financial position of the Group. The Group's share of investments in these funds is included under investments, and is disclosed under related party transactions. Funds invested by the Group in those investment funds amounted to SAR 1,142 Mn. at 31 December 2018 (2017: SAR 1,423 Mn.).

34 Capital Adequacy

The Bank's objectives when managing capital are, to comply with the capital requirements set by SAMA to safeguard the Bank's ability to continue as a going concern; and to maintain a strong capital base.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's Management, SAMA requires the banks to hold the minimum level of the regulatory capital and also to maintain a ratio of total regulatory capital to the risk-weighted assets at or above 8%.

The Bank monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Bank's eligible capital with its consolidated statement of financial position, commitments and contingencies, to reflect their relative risk as of 31 December 2018 and 2017.

	2018 (SAR '000)	2017 (SAR '000)
Credit risk weighted assets	222,309,112	219,687,988
Operational risk weighted assets	28,094,351	26,832,383
Market risk weighted assets	4,102,847	4,594,750
Total Pillar I – risk weighted assets	254,506,310	251,115,121
Tier I – capital	48,554,018	55,750,918
Tier II – capital	2,778,864	2,746,100
Total Tier I and II capital	51,332,882	58,497,018
Capital Adequacy Ratio		
Tier I ratio (%)	19.08	22.20
Tier I and II ratio (%)	20.17	23.29

35 Standards Issued but not yet Effective

IFRS 16 "Leases"

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. The impact is not material for the Bank.

IAS 19 "Employee Benefits"

Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) to harmonise accounting practices and to provide more relevant information for decision-making. An entity applies the amendments to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019.

These amendments are not expected to have material impact on the consolidated financial statements of the Group.

36 Approval of the Board of Directors

The consolidated financial statements were approved by the Board of Directors on 5 Jumada II 1440H (corresponding to 10 February 2019).

37 Comparative Figures

Figures have been rearranged or reclassified wherever necessary for the purpose of better presentation, however, no significant rearrangements or reclassifications have been made in these consolidated financial statements.

38 Other Adjustment

The Bank has conducted a review of the timing of the recognition of up-front fees and special commission income relating to retail credit products. As a result of the review, the method of the application of the accounting policy on timing of the recognition of up-front fees and special commission income has been amended to appropriately reflect the systematic deferral of the recognition of such income. Based on materiality considerations, an adjustment of SAR 799.356 Mn. was only made to the opening retained earnings as at 1 January 2018 with a corresponding adjustment to deferred income as at that date.

39 Subsequent Events

The Board of Directors proposed, on 3 January 2019, a distribution of final dividends to the shareholders for the year amounting to SAR 3,656.25 Mn., of SAR 2.25 per share.

In addition, the Board of Directors has recommended to increase the share capital to SAR 25,000 Mn. by granting share dividends of 7 shares for every 13 shares owned. The Board's proposal is subject to the approval of the Extraordinary General Assembly in the next meeting.

Basel 3 Qualitative and Quantitative Disclosures

Pillar 3 qualitative disclosure on remuneration – January 2019

(a) The main body overseeing remuneration in Al Rajhi Bank – KSA (The Bank), on behalf of the Board of Directors is the Nominations and Compensation Committee (Compensation Committee).

The Compensation Committee current members are Alaa Shakeeb Al-Jabri (Chairperson), Khalid Abdulrahman Al-Quiz, Abdulaziz Khalid Al-Ghefaily, and Raed Abdullah Al-Tamimi.

In line with SAMA Rules on Compensation Practices, the Compensation Committee main purposes include; recommendation for the selection of Board, Committee members and Senior Executives; to recommend policies that determine salaries and remuneration aligned with regulations and compensation best practices for the Board, Committee members, and Senior Executives.

The Bank's compensation policy, provided that there is no inconsistency with the legal and regulatory requirements of the host country, will apply to Al Rajhi Banking and Investment Corporation and to all its majority-owned subsidiaries both domestic and foreign operating in the financial sector.

The Bank's compensation policy, covers employees, outsourced personnel, and service providers.

The Bank participates in the following salary benchmarking exercises to maintain awareness of the market trends, salaries, and benefits; Hay Group, Mclagan and the Institute of Finance (formerly the Institute of Bankers).

Senior Executives have been interpreted as the CEO, his key direct reports and employees requiring SAMA no-objection.

Employees engaged in risk taking activities have been interpreted as Supervisors and above in Retail Banking Group, Corporate Banking Group and Treasury Group, excluding the Senior Executives.

Employees engaged in control functions have been interpreted as Supervisors and above in Internal Audit Group, Compliance Group, Finance Group, Governance and Legal Group and the Credit and Risk Group, excluding the Senior Executives.

(b) The Bank's compensation philosophy is derived from a commitment to attract, retain, develop, motivate, and equitably compensate employees of the highest calibre and talent in recognition to their relative contribution in effectively conducting the business of the Bank and in achieving the Bank strategic goals and building sustainable succession pipeline.

The Bank seeks to provide employees with a compensation package that consists of base salary and allowances that are competitive with those provided by comparable organisations for similar levels of duties and responsibilities.

The Bank's employee's contracts and the compensation package is built towards rewarding performance with emphasis "At Risk" component to align and encourage behaviours that support Bank values and risk management framework, adherence to the internal control framework, and compliance to regulatory requirements.

Annexes to the Bank's compensation policy are reviewed annually by the Compensation Committee and recommendations for changes are submitted to the Board for approval.

The changes are mainly with regards to the eligibility and payment schedule for the annual salary review, the performance bonus; including deferred bonus and the sales incentives.

The Bank ensures that performance and remuneration outcomes of all risk and compliance employees are independent of the businesses they oversee and are determined by the reporting managers within these functions directly. Performance is measured using a balanced scorecard model, driven by the Performance Management team within HR.

Basel 3 Qualitative and Quantitative Disclosures

(c) Al Rajhi Bank has defined risk management framework which take into account a range of risks managed by the Bank, risk appetite contains both qualitative and quantitative measures across major risk classes including credit, market, operational and liquidity risk to ensure performance is measured and monitored on risk adjusted basis.

Al Rajhi Bank's compensation policy was designed within a risk reward framework. Risk factors are an integral part of the balanced scorecard for Senior Managers performance management. Risk measures thresholds have been defined which are required triggers for variable and long-term bonuses qualifying assessments. The Chief Risk Officer reviews and provides input on the incentive plan taking into consideration the risk and return trade-off. To ensure long term and other risk factors are fully considered, the proportion of the variable bonus that is deferred increases with levels of seniority.

(d) Individual remuneration outcomes are discretionary and linked to both Al Rajhi Bank and individual performance outcomes for all Senior Managers and material risk takers. Al Rajhi Bank implements an online balanced scorecard performance management framework, based on the Kaplan model. The KPI's are cascaded down from the Bank level, down to individual employees and each employee's KPI are measured based on the financial, processes, customer service and people elements, as appropriate for their job and seniority level. For senior staff, there are some standard KPI's that ensure that adherence to regulations, Risk and compliance are constantly considered. Each individual's performance is assessed at year end against their agreed balanced scorecard of financial and non-financial objectives.

The Bank operates within a natural performance distribution curve, per group, as follows: 5% to be rated as exceptional, 20% to be rated as outstanding, 65% to be rated as Strong, 5% to be rated as average, and the remaining 5% to be rated as poor.

(e) To encourage employees to have a longer-term view, the Bank defers part of the Bonus for eligible Senior Managers and outstanding managers.

This deferral is in the form of shares vested over three years as follows; 1/3 at the beginning of the second year, 1/3 at the beginning of the third year and the remaining 1/3 at the beginning of the fourth year.

The Bank's compensation includes the provision to initiate claw back on past bonuses or holdback on the deferred bonus in instances, inter-alia, where an employee's specific deal has failed or are incurring losses or in relation to gross misconduct, consistent disregard of bank policy, compliance breaches.

(f) The Bank's total compensation approach comprises fixed and variable compensation. The fixed compensation includes basic salary, which reflects seniority, experience and skills and is benchmarked to the KSA banking sector. Other fixed compensation includes the KSA standard guaranteed payments for housing, transport and 13th and 14th months, known in Al Rajhi Bank, as Ramadan and year end payments.

The variable compensation, for business groups, are paid either on a monthly, quarterly, half-yearly or annual basis, depending on the business group, product type or seniority and individual performance. For the Head office and other support functions, the variable pay is mainly in the form of individual annual performance bonus and is based on seniority and individual performance. For Senior Staff, at least 40% of their bonus is deferred.

In line with the SAMA Rules on compensation practices, both, the incentive plans and the Bonus plans (including the deferred bonus) are approved by both the Chief Risk Officer and the Board of Directors.

REM1 Remuneration awarded during the fiscal year

Remuneration amount			Senior Management	Other material risk-takers
1.	Fixed remuneration	Number of employees	17	1233
2.		Total fixed remuneration (3+5+7)	31,515	358,204
3.		of which: Cash based	30,536	338,930
4.		of which: Deferred		
5.		of which: Shares or other shares-linked instruments		
6.		of which: Deferred		
7.		of which: Other forms	979	19,274
8.		of which: Deferred		
9.	Variable remuneration	Number of employees	17	1,233
10.		Total variable remuneration (11+13+15)	33,026	56,186
11.		of which: Cash based	18,352	49,117
12.		of which: Deferred	21,038	8,749
13.		of which: Shares or other shares-linked instruments	14,674	7,069
14.		of which: Deferred		
15.		of which: Other forms		
16.		of which: Deferred		
17.	Total remuneration (2+10)		64,541	414,390

REM2: Special payments

Special payment	Guaranteed bonus		Sign-on awards		Severance payments	
	Number of employees	Total amount	Number of employees	Total amount	Number of employees	Total amount
Senior Management	N/A	N/A	N/A	N/A	N/A	N/A
Other material risk-takers	N/A	N/A	N/A	N/A	N/A	N/A

REM3: Deferred remuneration

	a	b	c	d	e
Deferred and retained remuneration	Total amount of outstanding deferred remuneration	Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	Total amount of amendment during the year due to ex post explicit adjustments	Total amount of amendment during the year due to ex post implicit adjustments	Total amount of deferred remuneration paid out in the financial year
Senior Management					
Cash	0	0	0	0	0
Shares	10,395,099	10,395,099	0	0	13,463,533
Cash-linked instruments			0	0	
Other	0	0	0	0	0
Other material risk-takers					
Cash	0	0	0	0	2,753,439
Shares	39,648,502	39,648,502		0	19,145,439
Cash-linked instruments			0	0	
Other	0	0	0	0	0
Total	50,043,601	50,043,601	0	0	35,362,411

Supplementary Information

About this Report

Report structure

This Annual Report of Al Rajhi Bank provides the reader with a clear and concise picture of how the Bank plans to execute strategy (as far as it is prudent to disclose such information) in light of the mega trends shaping its operating environment. The Report describes the planned course of action by which the Bank will navigate known and unknown waters as it perpetuates the value creation process in the short, medium and long term. The Report covers the various aspects of the Bank's business and the interrelationships between them as it provides the reader with a clearer understanding of future direction.

The preparation of our Annual Report strengthened and reinforced integrated thinking across the Bank, making the Bank more sustainable in creating value over the long term. In preparing this Report, we drew mainly on the concepts, principles, and guidelines from the following sources:

- International Integrated Reporting Framework (www.theiirc.org)
- The Smart Integrated Reporting Methodology™
- Global Reporting Initiative Sustainability Reporting Guidelines – GRI Standards (www.globalreporting.org)

Financial reporting and sustainability reporting are integrated throughout the contents of this Report to highlight the broad concept of value creation and capital formation.

Continuing its leadership role in the digital sphere, the Bank has provided an interactive online report which complements the printed report while serving the diverse information needs of its many stakeholder groups.

Report boundary

The Financial Statements within this Report illustrate the consolidated performance of the entire Group, comprising Al Rajhi Bank (referred to as "the Bank" in this Report) and its subsidiaries (collectively referred to as the "Group", detailed in Note 1 on page 125). Reporting on the Bank's social and environmental impact within the Management Discussion and Analysis, generally excludes these entities, which account for a small portion of the Group's revenue, assets, and workforce. When contributions by other Group entities are discussed they are referred to as "Group" or "Consolidated".

Our key stakeholder groups have been taken into account when deciding on material aspects to report on, such as topics that reflect the Bank's significant economic, environmental, and social impacts which, in turn, can significantly influence stakeholder decisions. The Bank's reporting focuses on aspects that are material or important – those that may substantively affect the Bank's ability to create value over the short, medium and long term and which have a significant probability of occurrence.

Compliance

Covering the 12-month period from 1 January to 31 December 2018, this Report is consistent with the Bank's usual annual reporting cycle for financial and sustainability reporting. The contents of the Report are in compliance with all applicable laws, regulations and standards, and guidelines for voluntary disclosures. Additional details can be found in the Corporate Governance Report (pages 85 to 111), Financial Statements and the Notes thereon (pages 113 to 204), and in the Independent Auditors' Report (pages 114 and 119).

When launching new ventures and initiatives the Group always takes into consideration the financial, economic, social, and environmental consequences of its actions. With its best in class systems and risk management processes, the Bank is in complete compliance with all local regulatory requirements.

Queries

Your comments or questions on this Report are always welcome. In this regard the Bank invites you to contact:

IR@alrajhibank.com.sa

Consolidated Statement of Financial Position in USD

As at 31 December	2018 (USD '000)	2017 (USD '000)
Assets		
Cash and balances with Saudi Arabian Monetary Agency ("SAMA") and other central banks	11,532,278	12,875,326
Due from banks and other financial institutions	8,215,470	2,855,945
Investments	11,483,351	9,706,958
Financing, net	62,416,744	62,276,153
Investment property	346,024	350,402
Property and equipment, net	2,372,690	2,095,501
Other assets	967,799	1,337,457
Total Assets	97,334,355	91,497,741
Liabilities and Shareholders' Equity		
Liabilities		
Due to banks and other financial institutions	1,943,900	1,472,685
Customer deposits	78,375,767	72,815,052
Other liabilities	4,066,950	2,343,093
Total Liabilities	84,386,617	76,630,829
Shareholders' Equity		
Share capital	4,333,333	4,333,333
Statutory reserve	4,333,333	4,333,333
Other reserves	(93,215)	1,408,449
Retained earnings	3,399,286	3,708,463
Proposed gross dividends and Zakat	975,000	1,083,333
Total Shareholders' Equity	12,947,738	14,866,911
Total Liabilities and Shareholders' Equity	97,334,355	91,497,741

The Consolidated Statement of Financial Position and the Consolidated Statement of Income given on pages 211 and 212 are solely for the convenience of shareholders, investors, bankers and other users of Financial Statements and do not form part of the financial statements.

Exchange rate of SAR 3.75 per US dollar has been used for the above conversion of SAR Financial Statements into US dollar.

Consolidated Statement of Income in USD

For the years ended 31 December	2018 (USD '000)	2017 (USD '000)
Income		
Gross financing and investment income	3,669,189	3,354,934
Return on customers', banks' and financial institutions' time investments	(135,126)	(147,090)
Net financing and investment income	3,534,062	3,207,845
Fee from banking services, net	827,010	719,255
Exchange income, net	201,548	224,490
Other operating income, net	55,919	89,704
Total operating income	4,618,538	4,241,294
Expenses		
Salaries and employees' related benefits	749,186	750,378
Rent and premises related expenses	83,885	82,937
Depreciation and amortisation	117,912	117,484
Other general and administrative expenses	513,471	445,614
Impairment charge for financing, net	408,252	412,687
Total operating expenses	1,872,707	1,809,101
Net income for the year	2,745,831	2,432,194
Weighted average number of shares outstanding (million)	1,625	1,625
Basic and diluted earnings per share (in USD)	1.69	1.50

Exchange rate of SAR 3.75 per US dollar has been used for the above conversion of SAR Financial Statements into US dollar.

Five Year Summary in USD

Key indicators from the consolidated financial statements for the years ended 31 December

For the years ended 31 December	2018	2017	2016	2015	2014
Operating results for the year, USD million					
Net financing and investment income	**3,534**	3,208	2,977	2,656	2,618
Total operating income	**4,619**	4,241	4,076	3,666	3,645
Total operating expenses	**1,873**	1,809	1,909	1,764	1,822
Net income	**2,746**	2,432	2,166	1,901	1,823
Total comprehensive income	**2,719**	2,407	2,192	1,845	1,806
Assets and liabilities, USD million					
Financing, net	**62,417**	62,276	59,998	56,058	54,917
Customer deposits	**78,376**	72,814	72,691	68,327	68,287
Total assets	**97,334**	91,498	90,590	84,165	82,057
Total liabilities	**84,387**	76,631	76,737	71,728	70,884
Total shareholders' equity	**12,948**	14,867	13,853	12,437	11,172
Profitability					
Return on average assets, %	**2.90**	2.67	2.48	2.29	2.33
Return on average equity, %	**19.80**	16.94	16.49	16.11	17.01
Basic and diluted earnings per share, USD	**1.69**	1.50	1.33	1.17	1.12
Dividend per share, USD	**1.13**	0.66	0.60	0.67	0.73
Regulatory ratios					
Capital adequacy ratio:					
Tier I, %	**19.08**	22.20	20.86	19.74	18.48
Tier I and II, %	**20.17**	23.29	21.98	20.83	19.59
Growth					
Staff Nos.	**12,732**	13,077	13,684	12,374	11,761
Branches (Nos.)	**551**	554	539	525	501
ATMs (Nos.)	**5,006**	4,794	4,475	4,500	3,997
POS Terminals (Nos.)	**83,958**	74,612	62,118	51,000	32,792

Exchange rate of SAR 3.75 per US dollar has been used for the above conversion of SAR Financial Statements into US dollar.

GRI Content Index

GRI Standard/Disclosure		Page No.	Omission
GRI 101: Foundation 2016			
GRI 102: General Disclosures 2016			
Organisational profile			
102-1	Name of the organisation	6	
102-2	Activities, brands, products and services	6-7	
102-3	Location of headquarters	Corporate Information	
102-4	Location of operations	6	
102-5	Ownership and legal form	6	
102-6	Markets served	6-7	
102-7	Scale of the organisation	6-9	
102-8	Information on employees and other workers	70-77	
102-9	Supply chain		Not reported
102-10	Significant changes to the organisation and its supply chain	About this report	
102-11	Precautionary principle or approach		Not reported
102-12	External initiatives		Not reported
102-13	Membership of associations		Not reported
Strategy			
102-14	Statement from senior decision-maker	12	
Ethics and integrity			
102-16	Values, principles, standards, and norms of behaviour	6	
Governance			
102-18	Governance structure	87	
Stakeholder engagement			
102-40	List of stakeholder groups	36	
102-41	Collective bargaining agreements		Not applicable
102-42	Identifying and selecting stakeholders	36	
102-43	Approach to stakeholder engagement	36	
102-44	Key topics and concerns raised	37	
Reporting practice			
102-45	Entities included in the consolidated financial statements	125	
102-46	Defining report content and topic boundaries	About this report	
102-47	List of material topics	GRI index Topics page	
102-48	Restatements of information	About this report	
102-49	Changes in reporting		None
102-50	Reporting period	About this report	
102-51	Date of most recent report		31 December 2017
102-52	Reporting cycle	About this report	
102-53	Contact point for questions regarding the report	About this report	
102-54	Claims of reporting in accordance with the GRI Standards	About this report	
102-55	GRI content index	214-215	
102-56	External assurance		None

GRI Content Index

GRI Standard/Disclosure		Page No.	Omission
GRI 200: Economic			
GRI 201: Economic performance 2016			
103-1	Explanation of the material topic and its boundaries	6	
103-2	The management approach and its components	26-30	
201-3	Defined benefit plan obligations and other retirement plans	169	
GRI 202: Market presence 2016			
103-1	Explanation of the material topic and its boundaries	6	
103-2	The management approach and its components	26-30	
202-2	Proportion of senior management hired from the local community	70	
GRI 203: Indirect economic impacts 2016			
103-1	Explanation of the material topic and its boundaries	6	
103-2	The management approach and its components	26-30	
203-2	Significant indirect economic impacts	82	
GRI 205: Anti-corruption 2016			
103-1	Explanation of the material topic and its boundaries	6	
103-2	The management approach and its components	26-30	
205-1	Operations assessed for risks related to corruption	38-39	
GRI 307: Environmental compliance 2016			
103-1	Explanation of the material topic and its boundaries	6	
103-2	The management approach and its components	26-30	
307-1	Non-compliance with environmental laws and regulations		Compliant
GRI 400: Social			
GRI 401: Employment 2016			
103-1	Explanation of the material topic and its boundaries	6	
103-2	The management approach and its components	26-30	
401-1	New employee hires and employee turnover	70-72	
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	125	
GRI 404: Training and education 2016			
103-1	Explanation of the material topic and its boundaries	6	
103-2	The management approach and its components	26-30	
404-1	Average hours of training per year per employee	73-75	
404-2	Programs for upgrading employee skills and transition assistance programmes	73-75	
404-3	Percentage of employees receiving regular performance and career development reviews	75	
GRI 406: Non-discrimination			
103-1	Explanation of the material topic and its boundaries	6	
103-2	The management approach and its components	26-30	
406-1	Incidents of discrimination and corrective actions taken		None

GRI Content Index

GRI Standard/Disclosure		Page No.	Omission
GRI 413: Local communities 2016			
103-1	Explanation of the material topic and its boundaries	6	
103-2	The management approach and its components	26-30	
413-1	Operations with local community engagement, impact assessments, and development programmes	82	
GRI 418: Customer privacy 2016			
103-1	Explanation of the material topic and its boundaries	6	
103-2	The management approach and its components	26-30	
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	78	
GRI 419: Socio-economic compliance 2016			
103-1	Explanation of the material topic and its boundaries	6	
103-2	The management approach and its components	26-30	
419-1	Non-compliance with laws and regulations in the social and economic area	81	

Glossary of Key Islamic Finance Terms

Ajr
commission or fee charged for services

Akar
instalment sale to invest in property

Financing to give customers an opportunity to invest in property with repayment to the Bank in the form of instalments over a period of time.

Bai al Arboon
down payment sale

A sale agreement

In which a down payment is provided in advance as part payment towards the price of the commodity for reserving the commodity. The down payment is forfeited if the buyer does not return to take the commodity and the seller is entitled to sell the commodity.

Bai Al Ajel
deferred payment sale

A sale on a deferred payment basis. Equipment or goods are sold by the Bank to the client for an agreed lump sum price which includes the profit required by the Bank without disclosing the cost. The client may pay by instalments within a pre-agreed period, or in a lump sum.

Bai Inah
sale and buy-back

The sale and buy-back of an asset for a higher price than that for which the seller originally sold it. The seller immediately buys back the asset just sold on a deferred payment basis at a price higher than the original price. This can be seen as a loan in the form of a sale.

Eirad
credit facilities granted against assignment of an income stream for a specific period.

Fiqh
Islamic jurisprudence

Gharar
uncertainty

One of three fundamental prohibitions in Islamic finance (the other two being Riba and Maysir). Gharar is a concept that covers certain types of haram uncertainty whereby one or more parties stand to be deceived through ignorance of an essential element in the contract. Gambling is a form of Gharar because the gambler is ignorant of the result of the gamble. The prohibition on Gharar is often used as the grounds for criticism of conventional financial practices such as short selling, speculation and derivatives.

Halal
lawful, permissible

Haram
unlawful, forbidden

Activities, professions, contracts and transactions that are explicitly prohibited by the Quran or the Sunnah.

Hawala
bill of exchange, remittance

A contract which allows a debtor to transfer his debt obligation to a third party who owes the former a debt. The mechanism of Hawala is used for settling international accounts by book transfers, thus obviating the need for a physical transfer of cash.

Ijara
leasing

A lease agreement whereby a bank or financier buys an item for a customer and then leases it to him over a specific period, thus earning profits for the Bank by charging rental. The duration of the lease and the fee are set in advance. During the period of the lease, the asset remains in the ownership of the lessor (the Bank), but the lessee has the right to use it. After the expiry of the lease agreement, this right reverts to the lessor.

Ijara Thumma Bai
leasing to purchase

The same principle governing an Ijara contract, but at the end of the lease period the lessee buys the asset for an agreed price through a purchase contract.

Ijarah wa Iqtina
buy-back leasing

Istisnaa
advance purchase of goods or buildings

A contract of acquisition of goods by specification or order, where the price is paid in advance, or progressively in accordance with the progress of a job. For example, to purchase a yet to be constructed house, payments would be made to the builder according to the stage of work completed. This type of financing, along with Salam, is used as a purchasing mechanism, and Murabaha and Bai Al Ajel are for financing sales.

Kafalah
guarantee

Sharia principle governing guarantees. It applies to a debt transaction in the event of a debtor failing to pay.

Maysir
gambling

One of three fundamental prohibitions in Islamic finance (the other two being Riba and Gharar). The prohibition on Maysir is often used as grounds for criticism of conventional financial practices such as speculation, conventional insurance and derivatives.

Mudaraba
trust financing, profit sharing

An investment partnership, whereby the investor (the Rab al mal) provides capital to the entrepreneur (the mudarib) in order to undertake a business or investment activity. While profits are shared on a pre-agreed ratio, losses are born by the investor alone. The mudarib loses only his share of the expected income.

The investor has no right to interfere in the management of the business, but he can specify conditions that would ensure better management of his money. In this way Mudaraba is sometimes referred to as a sleeping partnership.

A joint Mudaraba can exist between investors and a bank on a continuing basis. The investors keep their funds in a special fund and share the profits before the liquidation of those financing operations that have not yet reached the stage of final settlement. Many Islamic investment funds operate on the basis of joint Mudaraba.

Mudarib
entrepreneur in a Mudaraba contract

The entrepreneur or investment manager in a Mudaraba who puts the investor's funds in a project or portfolio in exchange for a share of the profits. A Mudaraba is similar to a diversified pool of assets held in a discretionary asset management portfolio.

Glossary of Key Islamic Finance Terms

Murabaha
cost-plus financing

A form of credit in which the Bank buys an item and sells it to the customer on a deferred basis. The price includes a profit margin agreed by both parties. Repayment, usually in instalments, is specified in the contract.

The legality of this financing technique has been questioned because of its similarity to Riba. However, the modern Murabaha has become a popular financing technique among Islamic banks, used widely for consumer finance, real estate and the purchase of machinery and for financing short-term trade.

Musharaka
joint venture, profit and loss sharing

An investment partnership in which all partners are entitled to a share in the profits of a project in a mutually agreed ratio. Losses are shared in proportion to the amount invested. All partners to a Musharaka contribute funds and have the right to exercise executive powers in that project, similar to a conventional partnership structure and the holding of voting shares in a limited company.

This equity financing arrangement is widely regarded as the purest form of Islamic financing. The two main forms of Musharaka are –

- Permanent Musharaka: an Islamic bank participates in the equity of a project and receives a share of the profit on a *pro rata* basis. The length of contract is unspecified, making it suitable for financing projects where funds are committed over a long period.
- Diminishing Musharaka: this allows equity participation and sharing of profits on a *pro rata* basis, and provides a method through which the Bank keeps on reducing its equity in the project, ultimately transferring ownership of the asset to the participants. The contract provides for payment over and above the Bank's share in the profit for the equity held by the Bank. Simultaneously the entrepreneur purchases some of the Bank's equity, progressively reducing it until the Bank has no equity and thus ceases to be a partner.

Mutajar
an asset financing mechanism with deferred payment

A financing agreement whereby the bank purchases a commodity or an asset and sells it to the client based on a purchase promise from the client with a deferred price higher than the cash price, thus making the client a debtor to the Bank for the sale amount and for the period agreed in the contract.

Qard Hasan
benevolent loan

A loan contract between two parties for social welfare or for short-term bridging finance. Repayment is for the same amount as the amount borrowed. The borrower can pay more than the amount borrowed so long as it is not stated by contract.

Riba
interest

An increase, addition, unjust return, or advantage obtained by the lender as a condition of a loan. Any risk-free or "guaranteed" rate of return on a loan or investment is Riba. Riba in all its forms is prohibited in Islam.

In conventional terms, Riba and "interest" are used interchangeably, although the legal notion extends beyond mere interest.

Sharia
Islamic jurisprudence

Sukuk
Islamic bond

An asset-backed bond which is structured in accordance with Sharia and may be traded in the market. A Sukuk represents proportionate beneficial ownership in the underlying asset, which will be leased to the client to yield the return on the Sukuk.

Takaful
Islamic insurance

Based on the principle of mutual assistance, Takaful provides mutual protection of assets and property and offers joint risk-sharing in the event of a loss by one of the participants. Takaful is similar to mutual insurance in that members are the insurers as well as the insured. Conventional insurance is prohibited in Islam because its dealings contain several haram elements, such as Gharar and Riba.

Tawarruq
reverse Murabaha

In personal financing, a client with a genuine need buys an item on credit from the Bank on a deferred payment basis and then immediately resells it for cash to a third party. In this way, the client can obtain cash without taking out an interest-based loan.

Ujrah
fee

The financial charge for using services, or Manfaat (wages, allowance, commission, etc.).

Waqf
charitable trust

Zakat
religious tax

An obligatory contribution which every wealthy Muslim is required to pay to the Islamic state, or to distribute amongst the poor. According to Islam, Zakat – the third pillar of Islam – purifies wealth and souls. Zakat is levied on cash, cattle, agricultural produce, minerals, capital invested in industry and business.

Corporate Information

Name

Al Rajhi Banking and Investment Corporation

Trade Name

Al Rajhi Bank

Commercial Registration No.

1010000096

Registered Logo

مصرف الراجحي
Al Rajhi Bank

Legal Form

A Saudi joint stock company, formed and licensed pursuant to Royal Decree No. M/59 dated 3 Dhul Qadah 1407H (29 June 1987), in accordance with Article 6 of the Council of Ministers Resolution No. 245, dated 26 Shawal 1407H (23 June 1987).

Stock Exchange Listing

The shares of the Bank are listed on the Saudi Stock Exchange (Tadawul).
Stock code: 1120.SSE

Auditors

PricewaterhouseCoopers
KPMG Al Fozan & Partners

Head Office/Registered Office

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E-mail: care@alrajhibank.com.sa

Subsidiary Companies and Branches

Name of subsidiary	Country of operation	Country of establishment
Al Rajhi Capital Company	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia
Al Rajhi Development Company Limited	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia
Al Rajhi Takaful Agency Company	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia
Al Rajhi Management Services Company	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia
Al Rajhi Corporation Limited	Malaysia	Malaysia
Al Rajhi Bank (Kuwait branch)	Kuwait	Kingdom of Saudi Arabia
Al Rajhi Bank (Jordan branch)	Jordan	Kingdom of Saudi Arabia

Notes

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