Gulf International Bank – Saudi Arabia
(A Closed Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three-month and nine-month periods ended
30 September 2021 (Unaudited)

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INDEPENDENT AUDITORS' REVIEW REPORT TO THE SHAREHOLERS

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INDEPENDENT AUDITORS' REVIEW REPORT ON THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF GULF INTERNATIONAL BANK – SAUDI ARABIA (A SAUDI CLOSED JOINT STOCK COMPANY)

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of Gulf International Bank – Saudi Arabia, a Saudi Closed Joint Stock Company (the "Bank") as at 30 September 2021, and the related interim consolidated statements of income and comprehensive income for the three-month and nine-month periods ended 30 September 2021 and the related interim consolidated statements of changes in equity and cash flows for the nine-month period ended 30 September 2021 ("the periods"), and other explanatory notes (collectively referred to as "the interim condensed consolidated financial statements"). Management is responsible for the preparation and fair presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", that is endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements have not been prepared, in all material respects in accordance with IAS 34 that is endorsed in the Kingdom of Saudi Arabia.

Other regulatory matters

As required by Saudi Central Bank ("SAMA"), certain capital adequacy information has been disclosed in Note 15 to the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in Note 15 to the relevant analysis prepared by the Bank for its submission to SAMA and found no material inconsistencies.

For Ernst & Young & Co. Public Accountants

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13 Rabi al Thani 1443H
18 November 2021G

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
AS AT 30 SEPTEMBER 2021

	Note	30.09.21 (Unaudited) SAR '000	31.12.20 (Audited) SAR '000	30.09.20 (Unaudited) SAR '000
ASSETS				
Cash and balances with Saudi Central Bank (SAMA)		3,574,241	8,924,059	5,881,393
Due from banks and other financial institutions		1,873,864	1,267,331	1,554,861
Investments at fair value through statement of income (FVTIS)	6b	199,249	224,465	210,788
Investments at fair value through other comprehensive income (FVTOCI)	6c	303,225	370,052	365,490
Investments at amortised cost (AC), net	6a	5,140,987	2,566,536	2,382,036
Positive fair value of derivatives	9	216,955	284,991	293,901
Loans and advances, net	7	23,342,009	18,786,117	18,701,721
Other assets		153,233	152,420	132,759
Furniture, fixture and equipment, net		66,789	65,820	67,795
Right-of-use assets, net		204,070	217,943	231,695
Intangible assets, net		43,339	47,036	54,503
Total assets		35,117,971	32,906,770	29,876,942
LIABILITIES AND EQUITY				
Liabilities				
Due to banks and other financial institutions		1,284,226	2,320,715	1,895,843
Customers' deposits	8	25,725,365	22,368,371	19,629,007
Negative fair value of derivatives	9	252,095	324,578	332,902
Government grants	16	13,643	23,182	11,797
Other liabilities		519,252	597,493	511,163
Lease liabilities		211,635	213,278	225,019
Total liabilities		28,006,216	25,847,617	22,605,731
Equity attributable to the shareholders of the Bank				
Share capital	13	7,500,000	7,500,000	7,500,000
Statutory reserve		1,753	1,753	1,753
Fair value reserve		26,499	(8,982)	(13,543)
Accumulated losses		(416,497)	(433,618)	(216,999)
Total equity attributable to the shareholders of the Bank		7,111,755	7,059,153	7,271,211
Total equity		7,111,755	7,059,153	7,271,211
Total liabilities and equity		35,117,971	32,906,770	29,876,942

The interim condensed consolidated financial statements were approved by the Board of Directors on 27 October 2021 and signed on its behalf by: -

Abdulla Mohammed Al-Zamil	**Abdulaziz A. Al-Helaissi**	**Faisal Sabbagh**
Chairman	Chief Executive Officer	Chief Financial Officer

The accompanying notes 1 to 20 form an integral part of these interim condensed consolidated financial statements

INTERIM CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2021

		Three-month ended		Nine-month ended	
		30.9.21	30.9.20	30.9.21	30.9.20
		(Unaudited)			
	Note	SAR '000	SAR '000	SAR '000	SAR '000
Special commission income		162,014	149,606	454,898	541,204
Special commission expense		(39,364)	(36,199)	(112,980)	(192,386)
Net special commission income		122,650	113,407	341,918	348,818
Fee and commission income		39,149	25,466	121,900	74,362
Fee and commission expense		(1,014)	(914)	(2,987)	(3,484)
Net fee and commission income		38,135	24,552	118,913	70,878
Exchange income, net		7,187	3,588	15,415	24,199
Gains on FVTIS investments, net		23,703	28,607	80,743	7,167
Gains on other FVTIS financial instruments, net		4,269	99	11,438	2,780
Dividend income		2,885	2,651	8,654	8,177
Other income		8,354	7,809	10,748	8,558
Total operating income		207,183	180,713	587,829	470,577
Salaries and employee related expenses		(98,346)	(61,859)	(257,299)	(189,527)
Rent and premises related expenses		(3,951)	(4,530)	(9,636)	(10,868)
Depreciation and amortisation		(14,941)	(18,671)	(48,351)	(58,871)
Other general and administrative expenses		(39,694)	(38,548)	(115,925)	(114,139)
Operating expenses before credit impairment provisions		(156,932)	(123,608)	(431,211)	(373,405)
Expected credit losses (charge) / reversal on:					
Loans and advances	7	(29,125)	(152,584)	(35,907)	(324,986)
Financial contingencies and commitments	10	8,792	4,494	1,459	10,371
Investments	6	(306)	145	(298)	2,728
Total expected credit losses		(20,639)	(147,945)	(34,746)	(311,887)
Total operating expenses		(177,571)	(271,553)	(465,957)	(685,292)
Net income / (loss) for the period before Zakat		29,612	(90,840)	121,872	(214,715)
Zakat charge	12	(8,507)	(3,750)	(19,480)	(5,365)
Net income / (loss) for the period		21,105	(94,590)	102,392	(220,080)
Attributable to:					
Shareholders of the Bank		21,105	(94,590)	102,392	(220,080)
Net income / (loss) for the period		21,105	(94,590)	102,392	(220,080)
Earnings per share (Expressed in SAR per share)					
Basic and diluted earnings / (loss) per share	13	0.03	(0.13)	0.14	(0.29)

The accompanying notes 1 to 20 form an integral part of these interim condensed consolidated financial statements

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2021

	Three-month ended		Nine-month ended	
	30.9.21	30.9.20	30.9.21	30.9.20
	(Unaudited)			
	SAR '000	SAR '000	SAR '000	SAR '000
Net income / (loss) for the period	**21,105**	(94,590)	**102,392**	(220,080)
Other comprehensive income / (loss):				
Items that will not be reclassified to the statement of income in subsequent periods:				
- Net changes in fair value of equity investments classified as fair value through other comprehensive income (FVTOCI)	**6,975**	25,782	**16,439**	(15,588)
Other comprehensive income / (loss)	**6,975**	25,782	**16,439**	(15,588)
Total comprehensive income / (loss) for the period	**28,080**	(68,808)	**118,831**	(235,668)
Attributable to:				
Shareholders of the Bank				
Total comprehensive income / (loss) for the period	**28,080**	(68,808)	**118,831**	(235,668)

The accompanying notes 1 to 20 form an integral part of these interim condensed consolidated financial statements

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER

Nine-month period ended 30 September 2021	Share capital SAR' 000	Statutory reserve SAR' 000	Fair value reserve SAR' 000	Accumulated losses SAR' 000	Total SAR' 000
Balance at 1 January 2021	7,500,000	1,753	(8,982)	(433,618)	7,059,153
Net income for the period	-	-	-	102,392	102,392
Other comprehensive income for the period	-	-	16,439	-	16,439
Total comprehensive income for the period	-	-	16,439	102,392	118,831
Transfer from fair value reserve to accumulated losses	-	-	19,042	(19,042)	-
Consideration paid in excess of net assets acquired of a subsidiary (note 5)	-	-	-	(66,229)	(66,229)
Balance at 30 September 2021	7,500,000	1,753	26,499	(416,497)	7,111,755

Nine-month period ended 30 September 2020	Share capital SAR' 000	Statutory reserve SAR' 000	Fair value reserve SAR' 000	(Accumulated losses) / retained earnings SAR' 000	Total SAR' 000
Balance at 1 January 2020	7,500,000	1,753	2,045	3,081	7,506,879
Net loss for the period	-	-	-	(220,080)	(220,080)
Other comprehensive loss for the period	-	-	(15,588)	-	(15,588)
Total comprehensive loss for the period	-	-	(15,588)	(220,080)	(235,668)
Balance at 30 September 2020	7,500,000	1,753	(13,543)	(216,999)	7,271,211

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

	Note	2021 (Unaudited) SAR '000	2020 (Unaudited) SAR '000
OPERATING ACTIVITIES			
Net income / (loss) before Zakat for the period		121,872	(214,715)
Adjustments to reconcile net income / (loss) before Zakat to net cash flow used in operating activities:			
Depreciation and amortisation		26,431	38,971
Depreciation of right-of-use assets		21,920	19,900
Charge / (reversal) of expected credit losses on investments		298	(2,728)
Expected credit losses on loans and advances		35,907	324,986
Reversal of expected credit losses on financial contingencies and commitments		(1,459)	(10,371)
Gains on FVTIS investments		(80,743)	(7,167)
Gains on other financial instruments		(11,438)	(2,780)
Interest expense on lease liabilities		8,418	9,444
		121,206	155,540
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		(319,133)	(77,122)
Due from banks and other financial institutions		16	-
Positive fair value of derivatives		79,474	(130,162)
Loans and advances		(4,590,340)	(1,517,972)
Other assets		6,413	(13,390)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		(1,036,489)	1,317,374
Negative fair value of derivatives		(72,483)	157,163
Customers' deposits		3,356,994	(2,087,751)
Other liabilities		(132,402)	98,568
Net cash used in operating activities		(2,586,744)	(2,097,752)
INVESTING ACTIVITIES			
Purchase of investments		(2,574,759)	(192,374)
Proceeds from sale of investments		216,259	-
Acquisition of a subsidiary, net of cash and cash equivalents acquired	5	(77,429)	-
Purchase of furniture, fixture, equipment and intangible assets		(20,476)	(33,703)
Net cash used in investing activities		(2,456,405)	(226,077)
FINANCING ACTIVITY			
Payments of lease liabilities		(19,253)	(8,967)
Net cash used in financing activity		(19,253)	(8,967)
Net decrease in cash and cash equivalents		(5,062,402)	(2,332,796)
Cash and cash equivalents at the beginning of the period		9,064,213	8,673,449
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	11	4,001,811	6,340,653
Supplemental non-cash information			
Net change in fair value of investments classified as fair value through other comprehensive income (FVTOCI)		16,439	(15,588)

The accompanying notes 1 to 20 form an integral part of these interim condensed consolidated financial statements

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AT 30 SEPTEMBER 2021

1. INCORPORATION AND REGISTRATION

Gulf International Bank - Saudi Arabia (a closed joint stock Company incorporated in the Kingdom of Saudi Arabia) ("the Bank") was previously a foreign branch of Gulf International Bank B.S.C., a Bahraini shareholding company incorporated in the Kingdom of Bahrain by Amiri Decree Law No. 30 dated 24 November 1975 under the commercial registration number 466002. Effective from 27 Rajab 1440 (corresponding to 3 April 2019), the foreign branch was converted to a Saudi closed joint stock company with the same commercial registration number (2052001920) and in accordance with Ministerial Resolution number 2007 dated 26 Jumada Al-Thani 1439H, corresponding to 14 March 2018, and SAMA approval number 391000082125 dated 23 Rajab 1439H, corresponding to 9 April 2018. The address of the registered office of the Bank is Gulf International Bank - Saudi Arabia P. O. Box 39268, Dhahran, Kingdom of Saudi Arabia.

The Bank carried out its operations from its three locations in Riyadh, Jeddah and Dhahran with the number of employees totalling 599 as at 30 September 2021 (31 December 2020: 594 and 30 September 2020: 589) excluding outsourced employees.

The Bank's activities comprise wholesale, commercial, and retail banking services. The Bank also provides its customers with non-interest-based banking products which are approved and supervised by an independent Shariah Board.

The interim condensed consolidated financial statements include the financial statements of Gulf International Bank - Saudi Arabia and its subsidiaries as follows (collectively referred to as "the Group"):

	Ownership interest held by				
	Owners of the Bank		Non-controlling interests		
Name of subsidiary	30.09.21	31.12.20	30.09.21	31.12.20	Country of incorporation
GIB Capital Company (a)	**100**	-	**-**	-	Kingdom of Saudi Arabia
Dar Enjaz Gulf Real Estate Company (b)	**100**	100	**-**	-	Kingdom of Saudi Arabia
GIB Opportunistic Saudi Equity Fund - (c)	**90.54**	92.35	**9.46**	7.65	Kingdom of Saudi Arabia
GIB Saudi Equity Fund - (c)	**99.37**	99.25	**0.63**	0.75	Kingdom of Saudi Arabia
GIB Opportunistic Mena Equity Fund (d)	**99.97**	99.96	**0.03**	0.04	Kingdom of Saudi Arabia
GIBC Investment Fund 15 (d)	**100**	100	**-**	-	Kingdom of Saudi Arabia

a) GIB Capital Company provides financial advisory services in connection with equity placements, mergers, disposals and acquisitions, privatisations, debt capital market products and services, strategic debt advisory and asset management. GIB Capital's clients include institutional investors and high net worth ("HNW") individuals. GIB Capital Company has employees totalling 53 as at 30 September 2021.

b) Incorporated in the Kingdom of Saudi Arabia under commercial registration no.1010326338, issued in Riyadh. The Subsidiary was formed with the approval of SAMA for the purpose of dealing, managing and holding real estate on behalf of the Bank.

c) The funds' investment objective is to generate returns by investing in equity instruments listed on Tadawul.

d) The funds' investment objective is to generate returns by investing in MENA equity instruments.

2. BASIS OF PREPARATION

From 1 January 2021, the Bank opted out from the exemption available in paragraph 4 of IFRS 10 and accordingly consolidate its subsidiaries in these interim condensed consolidated financial statements. These interim condensed consolidated financial statements, have been have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Chartered and Professional Accountants ("SOCPA"). These interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Bank's annual financial statements for the year ended 31 December 2020 and the word "Bank" to be replaced as "Group" in the Bank's annual financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
AT 30 SEPTEMBER 2021

2. BASIS OF PREPARATION (continued)

The Group has prepared these interim condensed consolidated financial statements on the basis that it will continue to operate as a going concern. The Board of Directors considers that there are no material uncertainties that may cast significant doubt over this assumption. They have formed a judgement that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, and not less than 12 months from the end of the reporting period.

The financial statements of the Bank as at and for the year ended 31 December 2020, were prepared in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the SOCPA.

In preparing these interim condensed consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those applied to the annual financial statements for the year ended 31 December 2020.

The preparation of these interim condensed consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

These interim condensed consolidated financial statements are expressed in Saudi Arabian Riyals (SAR) and are rounded off to the nearest thousand, except where otherwise indicated.

2.1 Changes in composition of the Group

The Group acquired the assets, liabilities and operations of GIB Capital Company on 1 January 2021 under a common control transaction from one of the Bank's shareholders - Gulf International Bank B.S.C. The legal formalities were completed during the month of January 2021 (Note 5).

3. SIGNIFICANT ACCOUNTING POLICIES, IMPACT OF CHANGE IN ACCOUNTING POLICIES AND ADOPTION OF NEW STANDARDS

3.1 Basis of consolidation

The accounting policies, estimates and assumptions used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the preparation of the annual financial statements of the Bank for the year ended 31 December 2020 except for the adoption of new standards (refer 3.5) and change in accounting policies as mentioned below. The Following accounting policies are applicable effective 1 January 2021 replacing / amending or adding to the corresponding accounting policies set out in financial statements of the Bank for the year ended 31 December 2020.

3.1.1 Changes in accounting policies

Earlier and up until 31 December 2020, the Bank opted to avail the exemption available in paragraph 4 of IFRS 10: "Consolidated Financial Statements" for all the subsidiaries, as set out in note 1. Accordingly, the Bank did not prepare consolidated financial statements since the inception of the business as a closed joint stock company up until 31 December 2020.

From 1st January 2021, management changed its accounting policy and voluntarily opted out of the above exemption of preparing consolidated financial statements. Accordingly, the set of interim condensed consolidated financial statements has been prepared for the period ended 30 September 2021, and management has applied the revised accounting policies retrospectively with respect to consolidation of subsidiaries. Since the change in accounting polices did not have a material impact on the previously issued financial statements of the Bank up until 31 December 2020, no restatement has been made in these interim condensed consolidated financial statements.

The interim condensed consolidated financial statements comprise the financial statements of the Bank and its subsidiaries. Subsidiaries are investees controlled by the Group. 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 the amount of its returns.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
AT 30 SEPTEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES, IMPACT OF CHANGE IN ACCOUNTING POLICIES AND ADOPTION OF NEW STANDARDS (continued)

3.1.1 Changes in accounting policies (continued)

These control indicators are subject to management's judgement, and can have a significant effect in the case of the Group's interests in investment funds.

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the period are included in the interim consolidated 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 Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- 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 Group had directly disposed of the related assets or liabilities

Non-controlling interests represent the portion of net income and net assets of subsidiaries not owned, directly or indirectly, by the Bank in the subsidiaries and are presented separately in the interim consolidated statement of income and within equity in the interim consolidated statement of financial position, separately from the Bank shareholders' equity. Any losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Non-controlling interests are subsequently adjusted for their share of changes in equity of the consolidated subsidiary after the date of acquisition.

Balances between the Bank and its subsidiaries, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the interim consolidated financial statements. unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

The financial statements of subsidiaries are prepared for the same reporting period as that of the Bank. The interim consolidated financial statements have been prepared using uniform accounting policies and valuation methods for like transactions and other events in similar circumstances. The accounting policies of subsidiaries have been changed where necessary to align them with the policies adopted by the Group.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
AT 30 SEPTEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES, IMPACT OF CHANGE IN ACCOUNTING POLICIES AND ADOPTION OF NEW STANDARDS (continued)

3.2 Business combination under IFRS 3

Accounting for business combinations under IFRS 3 only applies if it is considered that a business has been acquired. Under IFRS 3 Business Combinations, a business is defined as an "integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities."

A business generally consists of inputs, processes applied to those inputs, and resulting outputs that are, or will be, used to generate revenues. If goodwill is present in a transferred set of activities and assets, the transferred set is presumed to be a business.

If any, goodwill arising from initial consolidation is tested for impairment at least once a year and whenever events or changes in circumstances indicate the need for impairment, they are written down if required.

For acquisitions meeting the definition of a business, the acquisition method of accounting is used. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree’s identifiable net assets. Costs related to the acquisition are expenses as incurred. Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognised directly in the interim consolidated statement of income.

For acquisitions not meeting the definition of a business, the Group allocates the cost between the individual identifiable assets and liabilities. The cost of acquired assets and liabilities is determined by (a) accounting for financial assets and liabilities at their fair value at the acquisition date as measured in accordance with IFRS 9 Financial Instruments; and (b) allocating the remaining balance of the cost of purchasing the assets and liabilities to the individual assets and liabilities, other than financial instruments, based on their relative fair values at the acquisition date.

3.3 Business combination under common controlled transactions

A 'business combination involving entities or businesses under common control' is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the combination, and that control is not transitory.

The acquirer in a common control transaction should use in its interim condensed consolidated financial statements either of the book value (carry-over basis) accounting on the basis that the investment has simply been moved from one part of the group to another or IFRS 3 accounting on the basis that the acquirer is a separate entity in its own right and should not be confused with the economic group as a whole. The Group has adopted the book value as the basis of accounting for the investment in GIB Capital Company.

In applying book value accounting, an adjustment may be required in equity to reflect any difference between the consideration paid and the net assets of the acquiree. The following are possible approaches to recognising the adjustment:

- Reflect the adjustment in a capital account, called a 'merger' reserve or similar; or
- Reflect the adjustment in retained earnings.

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group, the assets acquired and liabilities assumed are recognised at the carrying amounts recognised previously in the Group controlling shareholder’s consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity, and any gain/loss arising is recognised directly in equity. Any consideration paid more than the net assets will directly be reflected in the retained earnings.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
AT 30 SEPTEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES, IMPACT OF CHANGE IN ACCOUNTING POLICIES AND ADOPTION OF NEW STANDARDS (continued)

3.4 Revenue recognition

Income from advisory services:
Advisory service fees are recognised based on the applicable service contract, usually on a time proportionate basis as the services are performed. Advisory services where the underlying significant act is completed or instances for which no further activities are required to be done are considered fully earned.

Asset management fee income:
Asset management fee income from mutual funds and discretionary portfolio management are recognised based on a fixed percentage of net assets value under management, subject to applicable terms and conditions and service contracts with customers and funds. The Group attributes the revenue from management fees to the services provided during the period, because the fee relates specifically to the Group efforts to transfer these services. As asset management fees are not subject to refunds, the management does not expect any reversal of revenue previously recognised.

Brokerage income:
Brokerage income is recognised when the related transactions are executed on behalf of the customers at the price agreed in the contract with the customers, net of Tadawul fees. The performance obligation of the Group is satisfied when the Group carries out the transaction, which triggers immediate recognition of the revenue as the Group will have no further commitments.

Income from margin lending:
Margin lending is a financing facility provided to existing customers to trade in the capital market. Interest income is recognised based on customer utilisation of the margin lending financing facility at the applicable rates agreed in the contract with the customer. The income is accrued daily on the outstanding balance at the effective commission rate method.

Management fees:
Management fees are calculated at rates mentioned in terms and conditions of the fund and are payable quarterly in arrears.

The above streams of revenue are recognised under fee and commission income in the interim consolidated statement of income.

3.5 New standards, interpretations and amendments adopted by the Group

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Several amendments apply for the first time in 2021, but do not have an impact on the interim condensed consolidated financial statements of the Group. For details please refer note 17 to these interim condensed consolidated financial statements.

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The International Accounting Standard Board (IASB) has issued the following accounting standards and amendments, which will be effective in subsequent periods. The Group has opted not to early adopt these pronouncements and they do not have a significant impact on the interim condensed consolidated financial statements of the Group.

- Amendments to IAS 1 Presentation of Financial Statements on classification of liabilities;
- A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16;
- Narrow-scope amendments to IAS 1, Practice Statement 2 and IAS 8; and
- IFRS 17 Insurance Contracts as amended in June 2020.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
AT 30 SEPTEMBER 2021

5. ACQUISITION OF A SUBSIDIARY

On 1 January 2021, the Group acquired 100% of the shares and voting interests in GIB Capital Company for a cash consideration of SAR 256.7 million. The Group has concluded that the acquired set is a business. The Group incurred acquisition-related costs on legal fees and due diligence costs, and these costs have been included in general and administrative expenses.

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition (1 January 2021).

	SAR '000
CONSIDERATION PAID IN CASH	256,717
VALUE OF ASSETS ACQUIRED	
Property and equipment	3,227
Investment held at FVTOCI	23,285
Right-of-use-assets	3,824
Accounts receivable	4,400
Receivable against margin lending	3,538
Advances, prepayments and other current assets	9,192
Short-term deposits	170,000
Bank balances	9,288
	226,754
VALUE OF LIABILITIES ASSUMED	
Lease liabilities	3,511
Employees' terminal benefits	7,871
Accrued expenses and other current liabilities	24,884
	36,266
NET ASSETS ACQUIRED	190,488
Transferred directly to equity (consideration paid in excess of net assets acquired)	66,229
Consideration paid	256,717
Cash and cash equivalents acquired (short-term deposits and bank balances)	(179,288)
Net outflow reflected in the interim consolidated statement of cash flows	77,429

Since the above transaction falls under the ambit of acquisition of an entity under common control, the assets acquired and liabilities assumed are accounted for at book value, and the difference between consideration paid and net assets acquired has been transferred to the accumulated losses in accordance with the accounting policies as mentioned in note 3.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
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6. INVESTMENTS, NET

Investment securities are classified as follows:	30.09.21 (Unaudited) SAR '000	31.12.20 (Audited) SAR '000	30.09.20 (Unaudited) SAR '000
Investments at amortised cost (6a)	5,142,010	2,567,251	2,382,685
Less: expected credit losses (6d)	(1,013)	(715)	(649)
	5,140,997	2,566,536	2,382,036
Investments at fair value through statement of income (6b)	199,249	224,465	210,788
Investments at fair value through other comprehensive income (6c)	303,225	370,052	365,490
	5,643,471	3,161,053	2,958,314

a) Investments held at amortised cost

	SAR '000		
30 September 2021 (Unaudited)	Quoted	Unquoted	Total
Debt securities - fixed-rate securities	4,792,337	65,587	4,857,924
Debt securities - floating-rate securities	208,675	75,411	284,086
Less: expected credit losses	(759)	(254)	(1,013)
	5,000,253	140,744	5,140,997

	SAR '000		
31 December 2020 (Audited)	Quoted	Unquoted	Total
Debt securities - fixed-rate securities	1,805,262	377,028	2,182,290
Debt securities - floating-rate securities	382,000	2,961	384,961
Less: expected credit losses	(568)	(147)	(715)
	2,186,694	379,842	2,566,536

	SAR '000		
30 September 2020 (Unaudited)	Quoted	Unquoted	Total
Debt securities - fixed-rate securities	1,833,218	65,530	1,898,748
Debt securities - floating-rate securities	483,937	-	483,937
Less: expected credit losses	(516)	(133)	(649)
	2,316,639	65,397	2,382,036

b) Investments held at fair value through statement of income

	30.09.21 (Unaudited) SAR '000	31.12.20 (Audited) SAR '000	30.09.20 (Unaudited) SAR '000
Mutual funds	173,754	165,990	119,681
Equity investments	25,495	58,475	91,107
	199,249	224,465	210,788

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
AT 30 SEPTEMBER 2021

6. INVESTMENTS, NET (continued)

c) Investments held at fair value through other comprehensive income

	30.09.21 (Unaudited) SAR '000	31.12.20 (Audited) SAR '000	30.09.20 (Unaudited) SAR '000
Equity investments	303,225	370,052	365,490

The FVTOCI designation was made on the basis that the investments are expected to be held for the long-term for strategic purposes. During the period ended 30 September 2021, the Group disposed of certain investments measured at FVTOCI and realised a total loss of SAR 19 million. These equity securities were disposed of due to a strategic decision by the investment committee.

d) Expected credit losses on investments at amortised cost

The following table shows reconciliations from the opening to the closing balance of the expected credit losses:

	SAR '000		
30 September 2021 (Unaudited)	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL but not credit-impaired)	Total
Balance at 1 January 2021	715	-	715
Transfer to lifetime ECL not credit-impaired	-	-	-
	715	-	715
Net remeasurement of loss allowance	298	-	298
Balance at 30 September 2021	1,013	-	1,013

	SAR '000		
30 September 2020 (Unaudited)	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL but not credit-impaired)	Total
Balance at 1 January 2020	664	2,713	3,377
Transfer to lifetime ECL not credit-impaired	-	-	-
	664	2,713	3,377
Net remeasurement of loss allowance	(15)	(2,713)	(2,728)
Balance at 30 September 2020	649	-	649

All investments held by the Group are based in Kingdom of Saudi Arabia. Total investments include Shariah based investments amounting to SAR 4,959.5 million (31 December 2020: SAR 2,505 million; 30 September 2020: SAR 2,346 million).

All investments are classified as stage 1 and there were no transfers between the stages during the nine-month period ended 30 September 2021.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
AT 30 SEPTEMBER 2021

7. LOANS AND ADVANCES, NET

30 September 2021 (Unaudited)	SAR '000 Commercial loans	Overdrafts	Retail loans	Total
Performing loans and advances	20,880,855	1,363,868	926,304	23,171,027
Non-performing loans and advances	866,764	-	1,368	868,132
Loans and advances - gross	21,747,619	1,363,868	927,672	24,039,159
Less: expected credit losses	(676,850)	(223)	(20,077)	(697,150)
Loans and advances, net	21,070,769	1,363,645	907,595	23,342,009

Performing loans and advances held at amortised cost include SAR 1,630.7 million that are past due but not impaired.

31 December 2020 (Audited)	SAR '000 Commercial loans	Overdrafts	Retail loans	Total
Performing loans and advances	17,109,503	760,708	721,890	18,592,101
Non-performing loans and advances	792,281	-	1,334	793,615
Loans and advances - gross	17,901,784	760,708	723,224	19,385,716
Less: expected credit losses	(582,233)	(910)	(16,456)	(599,599)
Loans and advances, net	17,319,551	759,798	706,768	18,786,117

Performing loans and advances held at amortised cost include SAR 269.8 million that are past due but not impaired.

30 September 2020 (Unaudited)	SAR '000 Commercial loans	Overdrafts	Retail loans	Total
Performing loans and advances	17,281,536	344,755	734,569	18,360,860
Non-performing loans and advances	1,443,067	-	1,619	1,444,686
Loans and advances - gross	18,724,603	344,755	736,188	19,805,546
Less: expected credit losses	(1,089,063)	(1,173)	(13,589)	(1,103,825)
Loans and advances, net	17,635,540	343,582	722,599	18,701,721

Performing loans and advances held at amortised cost include SAR 154.9 million that are past due but not impaired.

Total loans and advances include Shariah based loans and advances amounting to SAR 14,977 million (31 December 2020: SAR 13,260 million; 30 September 2020: SAR 14,022 million).

During the nine-month period ended 30 September 2021, the gross loans transfer from stage 1 to 2 amounted to SAR 94 million, stage 2 to 1 SAR 25 million and from stage 2 to 3 SAR 31 million (30 September 2020: stage 1 to 2 SAR 88 million, stage 1 to 3 SAR 98 million, stage 2 to1 SAR 110 million and stage 2 to 3 SAR 37 million).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
AT 30 SEPTEMBER 2021

7. LOANS AND ADVANCES, NET (continued)

The following table shows reconciliations from the opening to the closing balance of the expected credit losses:

	SAR '000			
30 September 2021 (Unaudited)	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL but not credit-impaired)	Stage 3 (lifetime ECL credit-impaired)	Total
Balance at 1 January 2021	100,730	83,290	439,978	623,998
Reclassification (Note 18)	(10,633)	(10,060)	(3,706)	(24,399)
Balance at 1 January 2021 - reclassified	90,097	73,230	436,272	599,599
Transferred from financial contingencies and commitments (note 10)	-	-	63,683	63,683
Transfers during the period				
Transfer from stage 1	(1,442)	1,442	-	-
Transfer from stage 2	157	(7,127)	6,970	-
	(1,285)	(5,685)	6,970	-
Charge during the period				
Net charge for the period - commercial	(1,404)	35,935	(2,244)	32,287
Net charge for the period - retail	2,578	989	53	3,620
	1,174	36,924	(2,191)	35,907
Written-offs during the period				
Write-offs - retail	-	-	(2,039)	(2,039)
	-	-	(2,039)	(2,039)
Balance at 30 September 2021	89,986	104,469	502,695	697,150

	SAR '000			
30 September 2020 (Unaudited)	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL but not credit-impaired)	Stage 3 (lifetime ECL credit-impaired)	Total
Balance at 1 January 2020	53,163	74,090	671,414	798,667
Reclassification (Note 18)	(6,768)	(11,525)	-	(18,293)
Transfers during the period				
Transfer from stage 1	(794)	485	309	-
Transfer from stage 2	352	(1,664)	1,312	-
	(442)	(1,179)	1,621	-
Charge during the period				
Net charge for the period - commercial	50,792	23,138	241,207	315,137
Net charge for the period - retail	3,411	4,428	2,010	9,849
	54,203	27,566	243,217	324,986
Written-offs during the period				
Write-offs - retail	-	-	(1,535)	(1,535)
	-	-	(1,535)	(1,535)
Balance at 30 September 2020	100,156	88,952	914,717	1,103,825

8. CUSTOMERS' DEPOSITS

	30.09.21 (Unaudited) SAR '000	31.12.20 (Audited) SAR '000	30.09.20 (Unaudited) SAR '000
Demand	13,033,367	11,951,324	9,532,912
Time	11,994,236	8,838,742	9,177,693
Saving	453,871	690,854	606,966
Others	243,891	887,451	311,436
	25,725,365	22,368,371	19,629,007

Time deposits include deposits taken under non-interest-based contracts (Shariah based deposits) amounting to SAR 9,514 million (31 December 2020: SAR 6,807 million; 30 September 2020: SAR 7,395 million).

9. DERIVATIVES AND FOREIGN EXCHANGE INSTRUMENTS

The Group utilises the following derivatives and foreign exchange financial instruments for both trading and hedging purposes:

a) Swaps

Swaps are commitments to exchange one set of cash flows for another. For commission rate swaps, counterparties generally exchange fixed and floating rate commission payments in a single currency without exchanging principal. For cross-currency commission rate swaps, principal, fixed and floating commission payments are exchanged in different currencies.

b) Forwards

Forwards are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customised contracts transacted in the over-the-counter markets.

c) Options

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at a fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price.

Held for hedging purposes

The Group has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Group's exposures to fluctuations in foreign exchange and commission rates to reduce its exposures to currency and commission rate risks to acceptable levels, as determined by the Board of Directors ("the Board") within the guidelines issued by SAMA. The Board has established the levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure that positions are maintained within the established limits. The Board has also established the level of commission rate risk by setting limits on commission rate gaps for stipulated periods. Asset and liability commission rate gaps are reviewed on a periodic basis, and hedging strategies are used to reduce commission rate gaps within the established limits.

As part of their asset and liability management, the Group uses derivative financial instruments for hedging purposes in order to adjust their own exposure to currency and commission rate risks. This is generally achieved by hedging specific transactions as well as by strategic hedging against the overall statement of financial position exposures. Strategic hedging, other than portfolio hedging for commission rate risk, does not qualify for special hedge accounting and the related derivative financial instruments are accounted for as held for trading purposes. The Group uses commission rate swaps to hedge against the commission rate risk arising from specifically identified fixed commission rate exposures. In such cases, the nature of the hedging relationship and objectives, including the details of the hedged items and hedging instruments, are formally documented, and the transactions are accounted for as fair value hedges.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
AT 30 SEPTEMBER 2021

9. DERIVATIVES AND FOREIGN EXCHANGE INSTRUMENTS (continued)

The table below summarises the positive and negative fair values of derivative financial instruments, together with the notional amounts. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the period-end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Group's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor market risk.

	SAR '000		
30 September 2021 (Unaudited)	Positive value	Negative value	Notional amount
Held for trading			
Commission rate swaps	164,032	(162,789)	10,307,006
Currency swaps	-	-	-
Futures and options	51,151	(51,139)	5,037,555
Forward foreign exchange	317	(317)	1,530,498
Held as fair value hedge			
Commission rate swaps - loans	1,396	(37,784)	1,068,364
Commission rate swaps - deposits	59	(66)	1,641,940
	216,955	(252,095)	19,585,363

	SAR '000		
31 December 2020 (Audited)	Positive value	Negative value	Notional amount
Held for trading			
Commission rate swaps	242,114	(244,476)	8,194,751
Currency swaps	-	-	-
Futures and options	42,211	(42,229)	1,874,028
Forward foreign exchange	201	(201)	726,430
Held as fair value hedge			
Commission rate swaps - loans	420	(37,373)	820,302
Commission rate swaps - deposits	45	(299)	1,589,831
	284,991	(324,578)	13,205,342

	SAR '000		
30 September 2020 (Unaudited)	Positive value	Negative value	Notional amount
Held for trading			
Commission rate swaps	245,869	(249,023)	8,348,146
Currency swaps	17	(17)	75,008
Futures and options	46,412	(45,917)	1,830,326
Forward foreign exchange	503	(422)	1,127,961
Held as fair value hedge			
Commission rate swaps - loans	466	(37,395)	793,557
Commission rate swaps - deposits	634	(128)	1,093,293
	293,901	(332,902)	13,268,291

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
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10. CONTINGENCIES AND COMMITMENTS

	30.09.21 (Unaudited) SAR '000	31.12.20 (Audited) SAR '000	30.09.20 (Unaudited) SAR '000
Letters of guarantee	9,181,732	8,226,631	8,215,683
Irrevocable commitments to extend credit	2,960,023	1,319,666	1,421,884
Letters of credit	1,679,675	1,477,949	1,836,809
Acceptances	976,105	1,130,887	697,667
	14,797,535	12,155,133	12,172,043

The Group is subject to legal proceedings in the ordinary course of business. There was no significant change in the status of legal proceedings as disclosed at 31 December 2020.

The analysis of changes in loss allowance for expected credit losses on financial contingencies and commitments is as follows:

	SAR '000			
30 September 2021 (Unaudited)	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL but not credit-impaired)	Stage 3 (lifetime ECL credit-impaired)	Total
Balance at 1 January 2021	10,633	10,060	183,222	203,915
Transfers to on balance sheet loans and advances	-	-	(63,683)	(63,683)
Transfers during the period				
Transfer from stage 1	(66)	66	-	-
Transfer from stage 2	204	(204)	-	-
	138	(138)	-	-
Net charge / (reversal) for the period	(2,698)	(2,634)	3,873	(1,459)
Balance at 30 September 2021	8,073	7,288	123,412	138,773

	SAR '000			
30 September 2020 (Unaudited)	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL but not credit impaired)	Stage 3 (lifetime ECL credit-impaired)	Total
Balance at 1 January 2020	6,768	11,558	174,303	192,629
Transfers during the period				
Transfer from stage 1	(102)	102	-	-
Transfer from stage 2	7	(7)	-	-
	(95)	95	-	-
Net charge / (reversal) for the period	3,884	(3,170)	(11,118)	(10,404)
Balance at 30 September 2020	10,557	8,483	163,185	182,225

During the nine-month period ended 30 September 2021, the transfer of exposure from stage 1 to 2 amounted to SAR 2.9 million, stage 2 to 1 SAR 3 million (30 September 2020: stage 1 to 2 SAR 54 million, stage 2 to 1 SAR 36 million).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
AT 30 SEPTEMBER 2021

11. CASH AND CASH EQUIVALENTS

	30.09.21 (Unaudited) SAR '000	31.12.20 (Audited) SAR '000	30.09.20 (Unaudited) SAR '000
Cash and balances with SAMA (excluding statutory deposit)	2,157,976	7,826,927	4,815,810
Due from banks and other financial institutions with original maturities of three-month or less	1,843,835	1,237,286	1,524,843
	4,001,811	9,064,213	6,340,653

Cash and balances with SAMA includes statutory deposits of SAR 1,416.3 million (31 December 2020: SAR 1,097.1 million and 30 September 2020: SAR 1,065.6 million).

Due from banks and other financial institutions includes amounts with original maturities of more than three-months amounting to SAR 30.03 million (31 December 2020: SAR 30.05 million and 30 September 2020: SAR 30.02 million).

12. ZAKAT

Gulf International Bank - Saudi Arabia

The provision of zakat liability is estimated based on the results of operations of the Bank. The Bank has accrued zakat liability of SAR 19.48 million for the period ended 30 September 2021 (30 September 2020: SAR 5.37 million).

Status of assessments

The Bank has filed its zakat declaration with Zakat, Tax and Customs Authority ("ZATCA") for the period from 3rd April 2019 to 31 December 2019 and for the year ended 31 December 2020. However, no assessments have been raised by ZATCA.

GIB Capital Company

In 2016, the Company obtained an approval from the ZATCA for an exemption to pay zakat. Accordingly, the Company has not considered zakat for the years from 2016 to 2020.

Status of assessments

The Zakat returns for the years from 2008 till 2020 have been submitted to the ZATCA. However, the assessments have not yet been finalised by the ZATCA for any of these years.

13. SHARE CAPITAL AND EARNINGS PER SHARE

The authorised, issued and fully paid share capital at 30 September 2021 comprised 750 million shares (31 December 2020 and 30 September 2020; 750 million shares) of SAR 10 each. The shareholders of the Bank comprise: Gulf International Bank B.S.C. (50%) and Public Investment Fund (50%). Basic and diluted earnings per share for the period ended 30 September 2021 and 2020 is calculated on a weighted average basis by dividing the net income / (loss) for the period by 750 million shares.

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14. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

a. in the accessible principal market for the asset or liability; or
b. In the absence of a principal market, in the most advantageous accessible market for the asset or liability.

<u>Determination of fair value and fair value hierarchy</u>
For assets and liabilities that are recognised in the interim condensed consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

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

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Carrying amounts and fair value

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments. 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 to fair value.

The fair value of financial assets and liabilities not measured at fair value are estimated either by using a discounted cash flow model that incorporates assumptions for various risk factors or using the direct observable input that is similar security transactions in the market. Derivatives classified as Level 2 comprise over-the-counter special commission rate swaps, currency swaps, special commission rate options, forward foreign exchange contracts and other derivative financial instruments. These derivatives are fair valued using the Group's valuation models that are based on discounted cash flow techniques. The data inputs to these models are based on observable market parameters relevant to the markets in which they are traded and are sourced from widely used market data service providers. Loans and advances and customers' deposits are classified as Level 3, the fair value of which is determined by discounting future cash flows using prevailing market rates. There were no transfers between the levels of fair value hierarchies during the period.

	SAR '000				
At 30 September 2021 (Unaudited)	Carrying value	Level 1	Level 2	Level 3	Total
<u>Financial assets measured at fair value:</u>					
Investments held at FVTOCI	303,225	295,186	-	8,039	303,225
Investments held at FVTIS	199,249	199,249	-	-	199,249
Positive fair value of derivatives	216,955	-	216,955	-	216,955

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
AT 30 SEPTEMBER 2021

14. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

		SAR '000			
At 30 September 2021 (Unaudited)	Carrying value	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value:					
Investments at amortised cost	5,140,997	-	4,837,149	140,618	4,977,767
Loans and advances, net	23,342,009	-	-	23,488,984	23,488,984

		SAR '000			
At 31 December 2020 (Audited)	Carrying value	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:					
Investments held at FVTOCI	370,052	364,924	-	5,128	370,052
Investments held at FVTIS	224,465	224,465	-	-	224,465
Positive fair value of derivatives	284,991	-	284,991	-	284,991
Financial assets not measured at fair value:					
Investments at amortised cost	2,566,536	-	2,488,513	164,077	2,652,590
Loans and advances, net	18,786,117	-	-	18,830,805	18,830,805

		SAR'000			
At 30 September 2020 (Unaudited)	Carrying value	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:					
Investments held at FVTOCI	365,490	359,611	-	5,879	365,490
Investments held at FVTIS	210,788	210,788	-	-	210,788
Positive fair value of derivatives	293,901	-	293,901	-	293,901
Financial assets not measured at fair value:					
Investments at amortised cost	2,382,036	-	2,338,526	99,988	2,438,514
Loans and advances, net	18,701,721	-	-	18,335,787	18,335,787

		SAR '000			
At 30 September 2021 (Unaudited)	Carrying value	Level 1	Level 2	Level 3	Total
Financial liabilities measured at fair value:					
Negative fair value of derivatives	252,095	-	252,095	-	252,095
Financial liabilities not measured at fair value:					
Customers' deposits	25,725,365	-	-	25,245,554	25,245,554

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14. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

		SAR '000			
At 31 December 2020 (Audited)	Carrying value	Level 1	Level 2	Level 3	Total
Financial liabilities measured at fair value:					
Negative fair value of derivatives	324,578	-	324,578	-	324,578
Financial liabilities not measured at fair value:					
Customers' deposits	22,368,371	-	-	22,144,372	22,144,372

		SAR '000			
At 30 September 2020 (Unaudited)	Carrying value	Level 1	Level 2	Level 3	Total
Financial liabilities measured at fair value:					
Negative fair value of derivatives	332,902	-	332,902	-	332,902
Financial liabilities not measured at fair value:					
Customers' deposits	19,629,007	-	-	19,629,007	19,629,007

15. CAPITAL ADEQUACY

The Group's objectives when managing capital are to comply with the capital requirements set by SAMA, to safeguard the Group's ability to continue as a going concern and to maintain a strong capital base.

Capital adequacy and the use of regulatory capital are monitored regularly by management. SAMA requires holding the minimum level of the regulatory capital of and maintaining a ratio of total regulatory capital to the risk-weighted asset at or above the agreed minimum of 8%.

The Group monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Bank's eligible capital with its statement of financial position assets, commitments and notional amounts of derivatives at a weighted amount to reflect their relative risk.

The following table summarizes the Group's Pillar-I risk weighted assets, Tier I and Tier II Capital and Capital adequacy ratios.

	30.09.21 (Unaudited) SAR' 000	31.12.20 (Audited) SAR' 000	30.09.20 (Unaudited) SAR' 000
Credit risk RWA	**32,130,593**	25,877,562	26,015,542
Operational risk RWA	**1,091,744**	951,591	951,591
Market risk RWA	**443,526**	527,183	464,747
Total Pillar-I RWA	**33,665,863**	27,356,336	27,431,880
Tier I capital	**7,068,416**	7,059,153	7,271,211
Tier II capital	**195,468**	184,737	208,764
Total Tier I & II Capital	**7,263,884**	7,243,890	7,479,975
Capital adequacy ratios %			
Tier I ratio	**21.00%**	25.80%	26.51%
Tier I + Tier II ratio	**21.58%**	26.48%	27.72%

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

The Coronavirus (“COVID-19”) pandemic continues to disrupt global markets as many geographies are experiencing multiple waves of infections despite having previously controlled the outbreak through aggressive precautionary measures. The Government of the Kingdom of Saudi Arabia, however, managed to successfully control the outbreak to date.

During 2020 management performed a detailed assessment to ascertain the impact of the pandemic and resultant government and SAMA support measures, such as repayment holidays and other mitigating packages, have had on the financing portfolio. The Group made updates within its ECL model to refine the application of the staging criteria due to SICR on affected customers to be able to differentiate and reflect appropriately in its models:

- Customers whose credit quality appear to have deteriorated on a permanent basis and thus the Group is required to recognise lifetime ECL losses on such exposures; and
- Customers whose credit quality have either stayed stable (due to the offsetting nature of availing government programs) or have declined but the decline is deemed to be temporary as the customer may have sound fundamentals to emerge strongly post lockdown.

The Group continues to evaluate the current macroeconomic situation and conducts review of credit exposure concentrations at a more granular level with particular focus on specific economic sectors, regions, counterparties and collateral protection and taking appropriate customer credit rating actions and initiating restructuring of loans, where required. The credit reviews also take into consideration the impact of the government and SAMA support relief programs. To the extent that certain effects cannot be fully incorporated into the ECL model calculations at this point in time, management continues to exercise expert credit judgement to estimate ECL by considering reasonable and supportable information not already included in the quantitative models. The Group has total overlays of SR 54.2 million as at 30 September 2021 (31 December 2020: SR 29.2 million).

As with any forecasts, the projections and likelihoods of occurrence are underpinned by significant judgement and uncertainty and therefore, the actual outcomes may be different to those projected. The impact of such uncertain economic environment is judgmental and the Group will continue to reassess its position and the related impact on a regular basis.

SAMA support programs and initiatives

Private Sector Financing Support Program (“PSFSP”)

In response to COVID-19, SAMA launched the Private Sector Financing Support Program (“PSFSP”) in March 2020 to provide the necessary support to eligible (Stage 1 and Stage 2) Micro Small and Medium Enterprises (“MSME”) as defined by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H. The PSFSP mainly encompasses the following programs:

- Deferred payments program (DPP);
- Funding for lending program;
- Loan guarantee program; and
- Point of sale (“POS”) and e-commerce service fee support program.

As part of the deferred payments program launched by SAMA in March 2020 and with further extensions to the program subsequently announced, the Group deferred payments on lending facilities to all eligible MSMEs. The payment reliefs were considered as short-term liquidity support to address borrowers’ potential cash flow shortages. The Group implemented the payment reliefs by deferring instalments falling due from 14 March 2020 to 30 June 2021 amounting to SAR 2.2 billion and extended the tenure of the applicable loans at no additional costs to the customer.

Further to the above, SAMA on 22 June 2021 announced the extension of the DPP for three additional months from 1 July 2021 to 30 September 2021, only for those MSMEs that were still affected by the COVID-19 precautionary measures and in line with guidance issued by SAMA in this regard. On 29 September 2021, for these effected MSME customers, a further extension of three additional months was announced by SAMA i.e., for the installment falling due from 1 October 2021 to 31 December 2021. The Group performed an assessment to determine the pool of customers eligible for continued deferment and accordingly deferred the installment falling due from 1 July 2021 to 31 December 2021 amounting to SAR 189.4 million and extended the tenure of the applicable loans at no additional costs to the customer. This resulted in the Group recognizing an additional modification loss of SAR 2.7 million during the nine-month period 30 September 2021.

16. IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES ('ECL") AND SAMA PROGRAMS (continued)

SAMA support programs and initiatives (continued)
Private Sector Financing Support Program ("PSFSP") (continued)

The accounting impact of the above changes in terms of the credit facilities were assessed and treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in total modification losses amounting to SAR 52.1 million, out of which SAR 7.6 million has been recorded during the for the nine-month period ended 30 September 2021 (31 December 2020: SAR 44.5 million).

During the nine-month period ended 30 September 2021, SAR 12.64 million (31 December 2020: SAR 18.1 million) has been recognized in the statement of income relating to unwinding of modification losses.

The Group continues to believe that in the absence of other factors, participation in the deferment program on its own, is not considered a significant increase in credit risk for assessment of ECL on its MSME portfolio. The Group has performed as assessment with respect to SICR for the customers still under DPP program (ended on 30 September 2021). The Group has also performed as assessment with respect to SICR for customers for whom DPP program ended on 30 June 2021. This did not result in any significant impact on the ECL charge for the three months period ended 30 September 2021.

In order to compensate the related cost that the Group has incurred under the SAMA and other public authorities program, during the year 2020 and the nine-month period ended 30 September 2021, the Group has received multiple profit free deposits from SAMA amounting to SAR 906 million with varying maturities, which qualify as government grants.

Management determined based on communication from SAMA that the government grant primarily relates to compensation for the modification loss incurred on the deferral of payments. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. Management has exercised certain judgements in the recognition and measurement of this grant income. By the end of the year 2020, total income of SAR 36 million had been recognised in the statement of income with the remaining amount deferred. Grant income amounting to SAR 0.6 million arose on the profit free deposit amounting to SAR 374 million received during the nine-month period ended 30 September 2021. During the nine-month period ended 30 September 2021, a total of SAR 4.4 million has been recognised in the interim consolidated statement of income with respect to related deposits with an aggregate of SAR 13.64 million deferred grant income as at 30 September 2021 (31 December 2020: SAR 18.3 million).

SAMA liquidity support for the Saudi banking sector amounting to SAR 50 billion

In line with its monetary and financial stability mandate, SAMA injected SAR 50 billion into the banking sector to:

- enhance the liquidity in the banking sector and enable it to continue its role in providing credit facilities to private sector companies;
- restructure current credit facilities without any additional fees;
- support plans to maintain employment levels in the private sector; and
- provide relief for a number of banking fees that have been waived for customers.

In this regard, during 2020, the Group received a SAR 948.5 million profit free deposit with one-year maturity. Management has determined based on the communication received from SAMA that this government grant primarily relates to liquidity support. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in the Group recognising total income of SAR 11.6 million out of which SAR 4.9 million (30 September 2020: SAR 3.9 million) has been recognised in the interim consolidated statement of income during the nine months period ended 30 September 2021. This deposit has been repaid during the quarter ended 30 June 2021.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
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17. IBOR TRANSITION (INTEREST RATE BENCHMARK REFORMS)

A fundamental review and reform of major profit rate benchmarks is being undertaken globally. The International Accounting Standards Board ("IASB") has published, in two phases, amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 in order to address issues that might affect financial reporting after the reform of a profit rate benchmark, including the replacement of an existing Inter-bank Offer Rate ("IBOR") with an alternative Risk Free Rate ("RFR"). The Phase 2 amendments are effective for annual periods beginning on or after 1 January 2021, and include practical expedients in respect of:

- Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform by updating the effective interest rate, resulting in no immediate profit or loss impact. This applies only when the change is necessary as a direct consequence of the reform, and the new basis for determining the contractual cash flows is economically equivalent to the previous basis; and
- Permitting changes to hedge designation and documentation as a result of IBOR reform without discontinuing the existing hedge accounted relationship.

As the Group believes there continues to be uncertainty as to the timing and the methods for transition, under the Phase 1 amendments, IBOR continues to be used as a reference rate as at 30 September 2021 in the valuation of instruments with maturities that exceed the expected end date for IBORs in various jurisdictions and applying to various currencies. Regulatory authorities, relevant benchmark rate administrators and public and private sector working groups globally are considering, and have started to announce mechanisms for, transition to alternative benchmark rates. The Group continues to monitor this guidance as it emerges.

The Group has exposure to IBOR rates that are subject to reform through the structural derivatives and products denominated in foreign currencies and, where applicable, associated hedging.

During 2020 the Board established a steering committee, consisting of key finance, risk, IT, treasury, legal and compliance personnel and external advisors, to oversee the Group's IBOR transition plan. This steering committee put in place a transition project for those contracts which reference USD LIBOR to transition them to SOFR, with the aim of minimising the potential disruption to business and mitigating operational and conduct risks and possible financial losses. This transition project is considering changes to systems, processes, risk management and valuation models, as well as managing related tax and accounting implications. As at 30 September 2021, changes required to systems, processes and models have been identified and have been partially implemented. There have been general communications with counterparties, but specific changes to contracts required by IBOR reform have not yet been proposed or agreed.

The Group has identified that the areas of most significant risk arising from the replacement of USD LIBOR are: updating systems and processes which capture USD LIBOR referenced contracts; amendments to those contracts, or existing fallback/transition clauses not operating as anticipated; mismatches in timing of derivatives and loans transitioning from USD LIBOR and the resulting impact on economic risk management; and updating hedge designations. The Group continues to engage with industry participants, to ensure an orderly transition to SOFR and to minimise the risks arising from transition, and it will continue to identify and assess risks associated with USD LIBOR replacement.

The following table contains details of all of the financial instruments that the Group holds at 30 September 2021 which reference USD LIBOR and have not yet transitioned to an alternative interest rate benchmark:

USD LIBOR

SAR 000' 30 September 2021	Non- derivative financial assets carrying value	Non-derivative financial liabilities carrying value	Derivatives Nominal amount
LIBOR USD (1 months)	185,072	-	-
LIBOR USD (3 months)	21,000	30,000	2,385,000
LIBOR USD (6 months)	127,827	-	2,075,250
	333,899	30,000	4,460,250

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
AT 30 SEPTEMBER 2021

17. IBOR TRANSITION (INTEREST RATE BENCHMARK REFORMS) (continued)

Management is running a project on the Group's overall transition activities and continues to engage with various stakeholders to support an orderly transition. The project is significant in terms of scale and complexity and will impact products, internal systems and processes.

18. COMPARATIVE FIGURES

In order to comply with the current period presentation, expected credit losses on loan commitment and financial guarantee contracts has been reclassified to other liabilities as follows:

	As previously reported Dr: / (Cr:) SAR 000'	Effects due to re-classification Dr: / (Cr:) SAR 000'	**After re-classification Dr: / (Cr:) SAR 000'**
<u>Statement of financial position as at 31 December 2020 (Audited)</u>			
Loans and advances, net	18,761,718	24,399	**18,786,117**
Other liabilities	(573,094)	(24,399)	**(597,493)**
<u>Statement of financial position as at 30 September 2020 (Unaudited)</u>			
Loans and advances, net	18,682,681	19,040	**18,701,721**
Government grants	-	(11,797)	**(11,797)**
Other liabilities	(503,920)	(7,243)	**(511,163)**
<u>Statement of income for the three-month period ended 30 September 2020 (Unaudited):</u>			
Expected credit losses on loans and advances	148,191	4,393	**152,584**
Expected credit losses reversals on financial contingencies and commitments	(101)	(4,393)	**(4,494)**
<u>Statement of income for the nine-month period ended 30 September 2020 (Unaudited):</u>			
Expected credit losses on loans and advances	325,733	(747)	**324,986**
Expected credit losses reversals on financial contingencies and commitments	(11,118)	747	**(10,371)**

19. SUBSEQUENT EVENTS

Subsequent to period ended 30 September 2021, on 6th October 2021, the Group incorporated a 100% owned subsidiary "GIB KSA Markets Limited" ("the Subsidiary"). The Subsidiary will engage in the business of derivatives trading and repo activities on behalf of the Group. The share capital of the Subsidiary is US$ 50,000 divided into 50,000 shares of a par value of US$ 1. The subsidiary is incorporated as an exempted Company in the Cayman Islands with Limited Liability.

Except for the above, there were no significant events between the date of these interim condensed consolidated financial statements authorisation and date of interim consolidated statement of financial position, which requires adjustment / disclosure in these interim condensed consolidated financial statements.

20. APPROVAL OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were approved by the Board of Directors on 27 October 2021G (corresponding to 21-Rabi al-awwal-1443H).