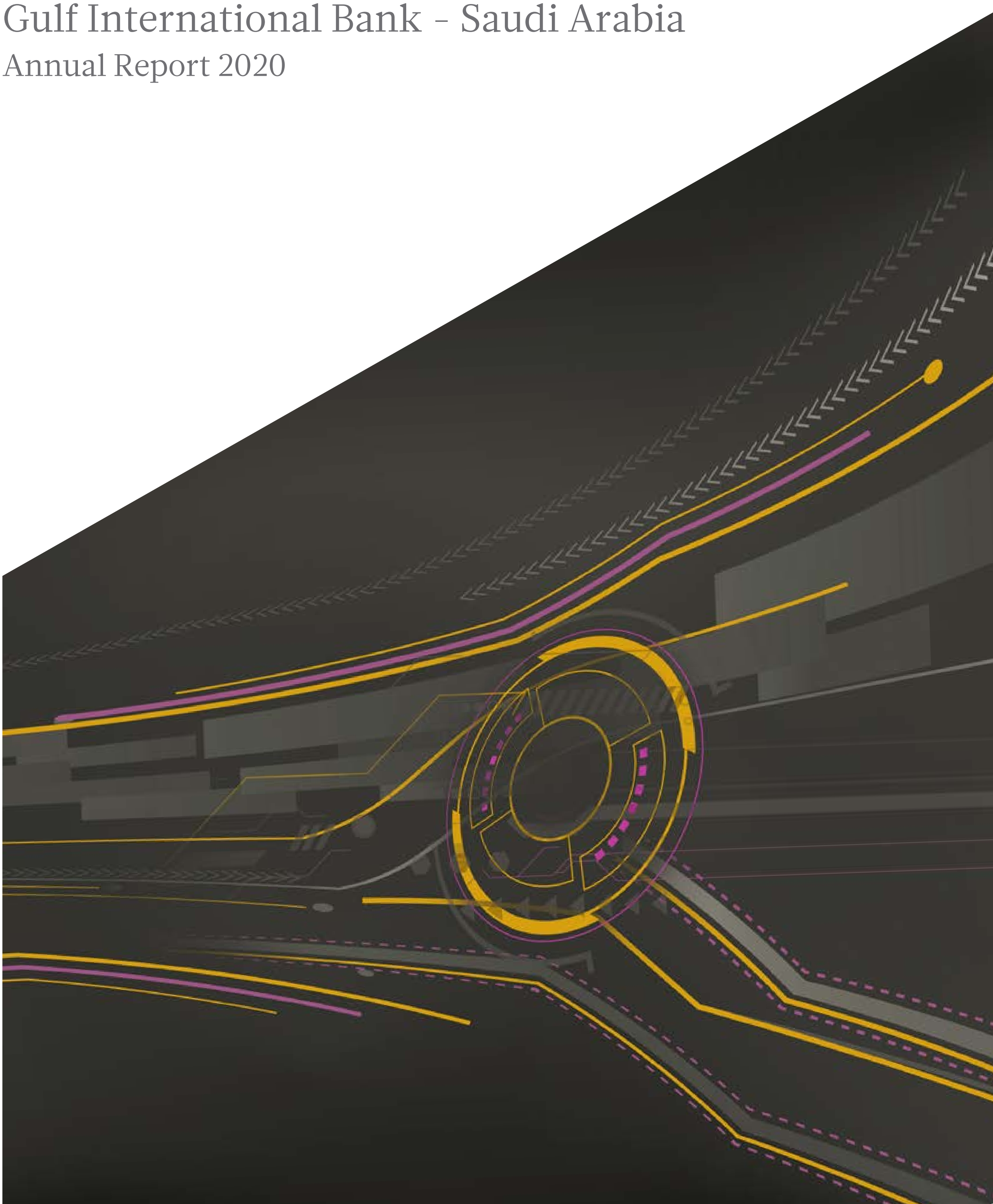
GIB

بنك الخليج الدولي

Gulf International Bank - Saudi Arabia

Annual Report 2020



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The Custodian of the Two Holy Mosques
King Salman bin Abdulaziz Al Saud
King of the Kingdom of Saudi Arabia

His Royal Highness
Prince Mohammed bin Salman bin Abdulaziz Al Saud
Crown Prince, Deputy Prime Minister and Minister of Defense


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GIB
بنك الخليج الدولي

Gulf International Bank - Saudi Arabia

Gulf International Bank B.S.C. (GIB) was established in 1975 as a commercial bank providing wholesale banking services and is regulated by the Central Bank of Bahrain. GIB is owned by the governments of the Gulf Cooperation Council countries, with Saudi Arabia's Public Investment Fund being the primary shareholder.

In 1999 GIB began operating in Saudi Arabia as a foreign bank, providing wholesale and investment banking services through branches in Dhahran, Riyadh, and Jeddah. In April 2019 GIB became the first foreign domiciled bank to establish a local commercial bank in the Kingdom with the conversion of the Bank's existing branches into Gulf International Bank - Saudi Arabia (GIB Saudi Arabia). This followed the Saudi Council of Ministers approval, in May 2017, to grant the Bank a local commercial banking license and the constituent shareholder's meeting to appoint the Board of Directors in February 2019. GIB Saudi Arabia is owned equally by the Saudi Public Investment Fund and Gulf International Bank B.S.C., with a paid-up capital of SR 7.5 billion and is the first bank to be headquartered in the Eastern Province.

GIB Saudi Arabia aims to be the trusted business partner recognised for innovation, regional expertise and international reach; providing tailored solutions that leverage our digital advantage across wholesale and retail banking with its Riyadh based subsidiary, GIB Capital, delivering the Bank's investment banking activities. Its services are delivered across the GCC and international markets through GIB B.S.C in Bahrain and the UAE and GIB UK Ltd in London and New York.

In 2014, the Bank launched 'meem', the world's first Shariah compliant digital bank, in Saudi Arabia, providing the Kingdom with innovative and comprehensive products for retail customers.

The trusted partner recognised for innovation, regional expertise and international reach.

Board of Directors

Eng. Abdulla bin Mohammed Al Zamil
Chairman

Dr. Abdullah bin Hassan Alabdulgader
Vice Chairman

Mr. Abdulaziz bin Abdulrahman Al-Helaissi
Executive Director and Chief Executive Officer

Mr. Rajeev Kakar
Director

Mr. Sultan bin Abdul Malek Al Sheikh
Director

Mr. Selman Fares M. Al Fares *
Director

Mr. Bander bin Abdulrahman bin Mogren
Director

Mrs. Anju Patwardhan
Director

Eng. Muhannad bin Kusai bin Hasan Al Azzawi
Director

Dr. Najem bin Abdulla Al Zaid
Director

Mr. Riyad bin Mustafa Al-Dughaither *
Director

* Mr. Riyad bin Mustafa Al-Dughaither was a Director from 2019 until December 2020
Mr. Selman Fares M. Al Fares became a Director in December 2020

Financial Highlights

	2020	2019 (9 month period)
Earnings (SAR millions)		
Net (loss) / income after Zakat	**(437.9)**	7
Net special commission income	**461.1**	399.6
Net fee and commission income	**94.3**	57.4
Operating expenses before impairment charge	**527.3**	380.6
Financial position (SAR millions)		
Total assets	**32,882.4**	30,626.8
Loans and advances	**18,761.7**	17,490.4
Investments	**3,161.1**	2,773.7
Customer deposits	**22,368.4**	21,716.8
Total equity	**7,059.2**	7,506.9
Ratios (per cent)		
(loss) / Profitability		
Return on equity	**(6.20)**	0.09
Return on assets	**(1.33)**	0.02
Capital		
Capital Adequacy ratios		
- Tier 1	**25.80**	29.32
- Tier 2	**26.48**	29.83
Equity as % of total assets	**21.47**	24.51
Assets quality		
Investments as % of total assets	**9.6**	9.1
Loans and advances as % of total assets	**57.1**	57.1

Chairman's statement

Abdulla Mohammed Al Zamil
Chairman of the Board

"Throughout 2020, we continued to advance our customer experience with the launch of new digital solutions for meem, Global Transaction Banking, Asset Management, Brokerage and Treasury. While new automated processes were introduced for Operations, Finance and Risk Management."

On behalf of the Board of Directors, it is my privilege to present the annual report and financial statements of Gulf International Bank - Saudi Arabia (GIB Saudi Arabia) for the fiscal year ended 31 December 2020. This marked the Bank's first full year of operations, during which we posted a resilient overall performance, despite the extraordinary impact of the global coronavirus pandemic.

Covid-19 Pandemic

In what proved to be a most tumultuous year, the Covid-19 pandemic presented the world with its greatest shock in recent history. I am pleased to report that the early and proactive steps taken by the Bank in protecting the health and safety of our employees and supporting our clients assisted in effectively mitigating the adverse impact of this unprecedented challenge, allowing the Bank to continue to function almost seamlessly.

On behalf of GIB Saudi Arabia, I would like to express my sincere appreciation for the enlightened leadership of the Custodian of the Two Holy Mosques, King Salman bin Abdulaziz and HRH Prince Mohammed bin Salman, the Crown Prince, the Saudi Central Bank (SAMA), the Ministry of Health and other government agencies for their well-managed comprehensive response to combatting the impact of Covid-19. Significantly, the application of technology played a major role in successfully managing Saudi Arabia's response to the pandemic, reflecting the growing digitally-oriented culture of the Kingdom. In particular, I would like to highlight the proactive, transparent and consultative role played by SAMA in helping Saudi banks implement the government's extensive fiscal support initiatives for businesses and individuals.

I also pay special tribute to all the frontline medical teams and volunteers, who have shown the utmost dedication and professionalism in dealing tirelessly with the pandemic. Their drive to protect us has been exemplary and will be remembered for many years to come. The Bank is delighted and proud to have supported national efforts, with donations to the Health Endowment Fund of the Ministry of Health, and the Ministry of Human Resources and Social Development's Community Fund.

In addition, I take this opportunity to thank our management and employees for their commitment to embracing change and overcoming numerous operational challenges in 2020. In particular, due to the Bank's location in the Eastern Province, some of our Bahrain-based employees had to spend a considerable period of time separated from their families, following the closure of the King Fahd Causeway. Their sacrifices and perseverance during such a testing time are highly appreciated.

Economic and Market Background

The dual public health and economic crisis created by Covid-19 resulted in world economic activity plunging, with global real GDP growth declining by 3.5 per cent in 2020, according to latest estimates from the International Monetary Fund (IMF). The sectors most seriously affected were those involving intensive human contact, such as tourism, transportation, services and construction; while in general, the technology-intensive sectors fared better.

The global policy response to cushion the coronavirus shock has been impressive in both speed and magnitude; with policymakers relying less on financial sector transmission to stimulate activity, and more on direct support to the real economy. This included direct lending, bond market purchases, loan and bond guarantees, and direct cash transfers to households, businesses and local governments. The pandemic also accelerated pre-existing structural trends such as greater integration of e-commerce and the digital economy, increased focus on sustainability, and rising inequality within and across nations.

Saudi Arabia's economy is expected to contract by 4.0 percent in 2020 according to the IMF, with the impact of the pandemic exacerbated by the collapse in oil demand; while oil prices briefly turned negative during the month of May for the first time in history. The ensuing economic crisis was unprecedented in its depth, as government revenue was seriously affected, and measures to stop the spread of the coronavirus also limited economic activity. Although the pandemic situation remains challenging amid the outbreak of variant strains, the rollout of vaccinations and the gradual easing of restrictions around the world are underpinning a recovery of oil prices and the Saudi economy. As global demand continues to rebound, the Kingdom will incrementally benefit from rising exports of crude oil, plastics and petrochemicals, while the transformative restructuring and reform programs being enacted under Vision 2030 are paving non-oil growth opportunities in the years ahead.

Financial Results

GIB's financial performance in 2020 was affected by several key coronavirus-related factors. These included the impact of global interest rate cuts on the region; reduced business activity, especially in trade finance and related areas; and increased stock market volatility. In addition, the effect of the economic recession, coupled with the bankruptcy law in the Kingdom of Saudi Arabia adversely impacted the already distressed exposures within the Bank's legacy non-performing portfolio, and weakened estimates of future cash flows and recoverability in the near-term. The Bank made the hard, but prudent and conservative decision to take significant provisions on this portfolio in 2020.

These factors contributed to total operating income for the year of SAR 627.7 million compared to SAR 493.3 million in 2019 (9 months period). Total operating expenses increased to SAR 527.3 million compared to SAR 380.6 million in the previous period. After taking a higher provision charge for loans and advances of SAR 524.2 million versus SAR 121.8 million the previous period, GIB reported a net loss of SAR 437.9 million for the year compared with net income of SAR 7 million in the previous period.

The Bank continued to maintain a strong balance sheet, with total assets at the end of the year standing at SAR 32.9 billion, and the asset profile continuing to reflect a high level of liquidity. Cash and other liquid assets and placements stood at SAR 10.19 billion, representing 31 per cent of total assets. Placements with banks exceeded deposits from banks and other financial institutions excluding deposits from Saudi Central Bank for SAMA's deferred payments program and SAMA's liquidity support for the Saudi banking sector, with GIB continuing to be a net lender to the interbank market. Loans and advances at the end of 2020 totalled SAR 18.8 billion compared to SAR 17.5 billion in the previous period. A comprehensive report and analysis of the Bank's financial performance for 2020 is covered in the Financial Review.

Funding Profile

GIB maintained a stable funding profile in 2020. A large portion of the Bank's funding is derived from global transaction deposits, accounting for 52.8 per cent of total deposits. Of note, as GIB reaps the rewards of its recently launched global transaction capabilities, it enabled the Bank to maintain a

Chairman's statement (continued)

relatively cheaper source of funding. Corporate customer deposits accounted for 30.6 per cent of customer deposits in 2020 while the remaining 16.6 per cent represented retail customer deposits, reflecting the effectiveness of diversified sources of funding.

GIB's stable funding position demonstrates the ongoing confidence of our clients and counterparties and confirms the Bank's commitment to expand and diversify its funding sources and utilise different structures to achieve an equitable cost of funding. These include securing cheaper and more stable funding through continued focus on retail and global transactional banking activities; and diversifying revenues away from lending and use of the balance sheet through greater contributions from treasury, investment banking and asset management.

Ratings Confirmation

The international rating agencies again endorsed their confidence in GIB's financial standing during 2020. Fitch Ratings affirmed the Bank's long-term issuer default rating at 'BBB+' with the outlook revised in November from Stable to Negative following a similar rating action on Saudi Arabia's sovereign rating. Moody's Investors Service reaffirmed GIB's long-term deposit ratings at 'Baa1' with a Negative outlook, while Capital Intelligence affirmed the Bank's long-term foreign currency rating at 'A+' with a Stable outlook. These rating confirmations reflect the agencies' continued confidence in the Bank's strong shareholder structure, solid capital and competent management, as well as its sound asset quality and strong levels of liquidity.

These affirmations are also important independent validations of the success of our strategy and the concerted steps we have taken towards creating a strong pan-GCC universal banking group. GIB remains committed to diversifying our business and bolstering our financial position through prudent policies and a highly-focused approach to managing risk. Additional recognition of GIB's strategic and business achievements took the form of further prestigious industry awards during the year. These underline the Bank's enduring strength, stability and reputation in the face of a highly-competitive and rapidly-changing financial landscape.

Strategic Progress

I am pleased to report that we made excellent progress in implementing the Bank's strategy and expanding our business activities during 2020. A notable development was completion of all steps necessary to incorporate GIB Capital, the Group's regional investment banking arm, within GIB Saudi Arabia which was subsequently formalised on 1 January 2021. This will open up additional business opportunities in the region's largest market and complement our existing corporate and digital retail banking activities.

The Bank's new state-of-the-art Operations Centre in Al Khobar also celebrated its first full year of operations in 2020, during which it continued to contribute to improved operational and cost efficiencies. The Centre was officially inaugurated in February by HRH Prince Saud bin Nayef, Governor of the Eastern Province. Full details of the Bank's progress against its five strategic priority areas during 2020 are covered by the Strategy Report in the Management Review.

Sustainability

GIB Saudi Arabia views sustainability as a key strategic enabler, business driver and competitive differentiator. We are committed to integrating sustainable finance across our business, and to supporting the sustainability agenda in the Kingdom. In 2020 we partnered with the Social Development Bank to provide financing for micro, small and medium enterprises (MSMEs); and collaborated with the Saudi Real Estate Development Fund to provide mortgages under the Ministry of Housing's affordable housing programme.

Digitisation

Throughout 2020, we continued to advance our customer experience with the launch of new digital solutions for meem, Global Transaction Banking, Asset Management, Brokerage and Treasury. While new automated processes were introduced for Operations, Finance and Risk Management.

Corporate Social Responsibility

The Bank contributes to the economic, social and environmental development of the Kingdom of Saudi Arabia through our WAGIB sustainability and corporate citizenship programme. During 2020 we, alongside the other Saudi banks, supported the establishment of the Autism Center of Excellence and sponsored the inaugural Ladies International Golf Tournament, which was the first professional female sport to be played in the Kingdom.

In addition, we played an active role in supporting the Kingdom's presidency of the G20, which underlined the status of Saudi Arabia as a global economic player. The Bank sponsored the Women 20 Engagement Group, and I was honoured to be an executive member of the Business 20 Engagement Group.

Looking Ahead

Covid-19 has led to profound changes to economic and societal ordering, and triggered expectations of shifts across industries and supply chains, alongside a growing digital narrative. The rollout of vaccines offers the promise of global rejuvenation and recovery although there are concerns about the impact of new and more contagious variants emerging around the world.

Areas such as sustainability, income inequality, physical and mental health, and the global macro policy revolution will come under the spotlight in 2021 and a front-loaded, albeit volatile, market and economic recovery is likely to follow as economies reopen. With a backdrop of accommodative monetary and fiscal support recovery, reflation and rotation are likely to unleash the strongest recovery in a decade. The path ahead will be turbulent in its initial phases until world economies find a sustainable footing in the post-pandemic environment. According to the latest IMF forecasts, the global economy is expected to rebound with real GDP growth of 5.5 per cent in 2021.

Despite a challenging environment throughout 2020, Saudi Arabia's large economy, significant reserves of crude oil, low debt burden, sizeable reserves and strong political standing enabled it to combat the dual shocks from Covid-19 and low oil prices from a position of strength. According to the IMF, the Kingdom's real GDP is expected to rebound by 3.1 per cent in 2021, with the reopening of global and regional economies improving the outlook for global oil demand and prices. The recovery will be supported by the continued implementation of fiscal, business, social and capital market reforms under the umbrella of Vision 2030.

This positive outlook bodes well for the prospects of GIB Saudi Arabia in 2021. The successful de-risking of the balance sheet has placed the Bank on a stronger financial footing and paved the way for the introduction of future planned strategic initiatives. We are fortunate to benefit from highly supportive shareholders, an experienced team of high calibre professionals, a robust support and control infrastructure and unique regional market knowledge and insight. As such, we enter 2021 on a cautiously optimistic note, well placed to achieve future growth, and confident of returning the Bank to profitability.

Acknowledgements

On behalf of the Board of Directors, I would like to express my sincere appreciation for the unwavering confidence and support of our shareholders, particularly the Public Investment Fund; the enduring trust and loyalty of our clients; and the continued encouragement and cooperation of our counterparties. We are also grateful for the ongoing advice and guidance that we receive from the regulatory and supervisory bodies in the Kingdom of Saudi Arabia, especially SAMA.

I also take this opportunity to pay special tribute to the commitment and professionalism of our management and employees; and their extremely positive attitude towards tackling the many challenges posed by Covid-19, in what proved to be a particularly testing year for us all.

Abdulla Mohammed Al Zamil
Chairman of the Board

Our Strategy

VISION

The trusted partner recognised for innovation, regional expertise and international reach.

MISSION

To provide tailored solutions leveraging our digital advantage:

- To build upon our digital banking expertise. We must innovate to evolve.
- To create agile and smart products for our clients. We want to be the partner of choice.
- To integrate sustainable finance into our business. We are conscious of the mark we leave.
- To invest and develop local talent. Our roots are in the GCC and so is our future.
- To enhance shareholder value. We are committed to driving business performance and growth.

PILLARS

Wholesale Banking	Retail Banking	Treasury	Asset Management	Investment Banking

Risk • Operations • Information Technology • Human Resources • Finance

STRATEGIC PRIORITIES

Increase & Diversify Revenue	Deliver Effective Funding Profile	Improve Operational & Cost Efficiencies	Enhance Service Excellence & Quality	Become an Employer of Choice

STRATEGIC ENABLERS

Focus & Prioritise Initiatives	*Strengthen Collaboration*	*Refine Business Steering & Strengthen Data Backbone*	*Increase Delivery of Support Function*	*Effective Programme Management*

Management review

Abdulaziz bin Abdulrahman Al-Helaissi
Chief Executive Officer and Board Member

"The year was marked by the development and launch of numerous new products and services, and innovative digitisation initiatives, designed to further enhance the customer journey and grow fee-based income."

Without exception, 2020 was the most challenging year I have experienced in my banking career. The impact of the Covid-19 global pandemic, in scale, scope and severity was unparalleled; but I am privileged to be part of a team that stood up, displayed its determination, and successfully rose to this immense challenge.

Not only did we keep the business going without interruption, which was a major feat in itself; but we also made remarkable progress in directing the business under very difficult circumstances. This included developing new products, services and digital solutions to enhance the customer journey; further streamlining internal processes and adding new clients and establishing new partnerships.

Key Developments in 2020

- Official opening of the new Operations Centre in Al Khobar
- Implementing the MSME digital platform with the Saudi Development Bank
- Providing an e-Payment system for the King Fahd Causeway Authority
- Created the GIB Sustainability Council to help the Bank achieve its vision of becoming a sustainable finance provider
- Launching the ajeeb loyalty programme by meem
- Supporting women's empowerment by sponsoring the first professional female sporting event in Saudi Arabia, and the W20 (one of the G20 working groups)
- Implementing a SD-WAN network to link all branches and offices, resulting in improved business productivity and reduced costs
- Strengthening the Bank's cyber security framework in line with international standards

Covid-19

Among the many lessons arising from the Covid-19 pandemic, perhaps the most important has been the heightened criticality of embracing digitisation and sustainability. As our achievements during 2020 illustrate, GIB remains firmly at the forefront of the regional banking industry in addressing these two issues. Equally important, is the need for strong and enlightened leadership to address the challenges of a new economic and social norm.

I want to acknowledge the success of the Bank's response to combating the pandemic. This was achieved through adopting a unified crisis management approach, with the active involvement of the Board and management, and close collaboration between the support, control and business teams. The Bank also helped the government's efforts to curb the spread of Covid-19 by donating SAR 2.0 million to the Saudi Arabian Health Endowment Fund, and SAR 1.2 million to the Ministry of Human Resources and Social Development's Community Fund; as well as actively promoting the public health precautionary measures to employees and customers.

What I found particularly pleasing during the year was the way in which everyone at GIB Saudi Arabia put into practice our core values of perceptiveness, collaboration, agility and integrity. This, above all, is what really made a difference.

Teamwork

The year was marked by the development and launch of numerous new products and services, and innovative digitisation initiatives, designed to further enhance the customer journey and grow fee-based income. This was achieved by the active collaboration of the banking divisions with the digital transformation and innovation teams. In line with our strategic objective to grow and diversify revenues, there was also an encouraging increase in cross selling during the year. This involved the active collaboration of Corporate Finance, Global Transaction Banking, Asset Management, Financial Institutions Group, Retail Banking and Treasury.

Our People

We placed particular focus on continuing to enhance our human capital during 2020. This entailed further strengthening our management capability with several senior executive appointments and also attracting additional young Saudi talent who have the potential to become future leaders. We also maintained our pioneering initiative of employing non-traditional banking staff to help drive our digitisation and innovation agenda.

Developing our people's skills and future potential remained a key priority. The Bank has a partnership with the London Business School to provide management training and development through the Future Leaders and Senior Leaders programmes, which offer our top talent a world-class learning journey. In addition, the GIB Academy supports employees in developing their technical and soft skills through an expanded digital learning library of online training courses. These leverage the Intuition eLearning Catalogue as well as selected third-party virtual solutions to address more specialised requirements.

The Jammaz Al-Suhaimi Future Executive Programme, which acts as an important talent pipeline, enables selected university graduates to take up a career in banking. Seventeen participants graduated from this programme in 2020 and were employed across the Bank. In addition, the Tamheer Internship Programme provides university students with practical work experience across different areas of banking activity, with the opportunity of possible subsequent employment.

Management review (continued)

Most importantly, we took concerted steps to ensure the well-being of our employees, by providing them with practical and psychological support during the challenging lockdown stages of the pandemic. These included organising webinars covering topics such as working from home effectively, leading virtual teams, and building resilience.

GIB's commitment to women's empowerment involves strengthening the role of female professionals across the Bank and supporting them to assume leadership roles. Numerous initiatives introduced during the year included identifying high-potential female staff though talent review discussions and integrating them in the succession pipeline; and conducting self-development training programmes such as the Moving Mountains workshop. It is encouraging to note that the number of women employed by the Bank has risen to 25 per cent of the total headcount of 594 employees.

Digitisation

The pandemic highlighted the increasing need for organisations to accelerate their use of digital solutions to transform. A digital DNA allows businesses to become more agile and efficient and meet their clients' growing expectations.

Due to our considerable investment in recent years in a robust and stable digital architecture, GIB Saudi Arabia was well placed to respond to these challenges and during 2020 executed a number of digital initiatives across all areas of the Bank.

Two notable examples were the launch of meem's ajeeb loyalty programme and the implementation of a fully-digital receivables financing platform by Global Transaction Banking, both of which contributed to further enhancing the customer experience and supporting business growth.

Cyber Security

A key enabler and guardian for the Bank in 2020 was Information Security. Our team successfully managed a transition to work from home for a large proportion of our employees and then successfully defended our networks and people from a surge in cyber fraud, hacking and other criminal activity. Therefore, I was pleased that when our cyber security framework was reviewed, we successfully maintained our top quartile rankings with FICO and Gartner. Over the course of the year, we continued to enhance our capabilities by increasing the layering of cyber security controls, our information security governance and incident monitoring.

Sustainability

2020 saw the Bank also take further steps on its sustainability journey. We established a Sustainability Council to embed economic, social and governance factors in all business activities and embrace responsible banking and investment.

Collaboration

Throughout the year, we continued to partner with other financial institutions; and develop our relationships with government agencies, fintechs, sustainability organisations and national sports bodies to develop new products and support national socio-economic initiatives.

For example, the Bank collaborated with the Saudi Real Estate Development Fund to provide mortgages under the Ministry of Housing's affordable housing program, Sakani. This was enabled by the development of a new flow lending mortgage mobile application by meem. The Bank also partnered with the Social Development Bank to introduce a new digital Fast Financing solution for micro, small and medium enterprises (MSMEs). This was developed in collaboration with Beehive.

We also maintained our collaborative partnership with the Fintech Saudi. This will help drive collaboration, fuel innovation, and facilitate greater integration between financial institutions and fintech companies.

For the second year running, the Bank was a key partner of the Saudi International Golf Championship; and also sponsored the inaugural Aramco Saudi Ladies International presented by Public Investment Fund, which was the first professional women's sporting event to be held in the Kingdom. Such initiatives are aimed at developing the Kingdom's sports, entertainment and tourism sectors and promoting women's empowerment, in line with the objectives of Vision 2030.

The critical importance of risk management in supporting business continuity was also highlighted during the year by Covid-19. Throughout 2020, our robust risk management framework proved its ability and resilience to support and protect the Bank during extremely testing conditions. Key measures included risk exposure monitoring; loan portfolio stress analysis; credit limit reviews; liquidity and capital adequacy management; and business continuity planning.

The Way Forward

We now prepare to enter the next phase of the Bank's development, which entails adapting to the challenges of an increasingly uncertain world. The Board and management are conducting phased reviews of our strategy and business model to steer the Bank through largely uncharted waters, and to ensure continued growth and sustainable profitability. We have the right people and resources, supported by a reprioritised strategic focus. This entails increasing revenues and reducing costs; developing our product offering and accelerating digitisation; and building a compelling environmental, social and governance sustainability proposition.

I am optimistic that the Bank will emerge from the coronavirus crisis as a stronger and more intuitive institution; and I am confident that all members of the Bank's team will rise to the occasion by demonstrating their proven professionalism, commitment and pioneering spirit. This will result in GIB Saudi Arabia further consolidating its support for the Kingdom's ongoing economic development and diversification.

In conclusion, on behalf of the management team, I would like to express my sincere appreciation for the visionary oversight and encouragement we continue to receive from our Board of Directors; the enduring loyalty of our clients; and the ongoing collaboration of our business partners. I also pay special tribute to our employees for their exemplary efforts and highly appreciated contributions during this most testing of times. I am confident that as 'one team' we can move forward from the crisis and achieve greater success and prosperity.

Abdulaziz bin Abdulrahman Al-Helaissi
Chief Executive Officer & Board Member

Management review (continued)

STRATEGY REPORT

INCREASE & DIVERSIFY REVENUES

28.4%

Foreign exchange income increased by 28.4%

Digital solution launched to support MSMEs

- Global Transaction Banking launched a new Receivable Finance solution; and partnered with complementary license holders to develop new off-balance sheet revenue streams.
- Treasury increased its Foreign Exchange income by 28.4 per cent.
- Personal Finance and Credit Card products were enhanced by becoming fully digital products with the introduction of e-Promissory note and e-Signature features in the digital application process for retail meem proposition.
- A new Fast Financing digital solution was launched to support micro, small and medium enterprises in Saudi Arabia in coordination with strategic partners.

DELIVER AN EFFECTIVE FUNDING PROFILE

50%

CASA deposits increase by 50%

151%

Net Stable Funding ratio (NSFR) at 151%

1.2 times

Customer Deposits exceeded loans and advances by 1.2 times.

- The Bank maintained a stable funding profile in 2020. Customer Deposits touched SAR 22.37 billion as at December 31st 2020 constituting 90% of total deposits and exceeding loans and advances by 1.2 times.
- GIB took early pre-emptive action to ensure adequate liquidity buffers. Cash and other liquid assets, placements, totaled SAR 10.2 billion, and represented 31 per cent of total assets.
- Overall CASA deposits account for 50 per cent of funding for GIB Saudi Arabia.
- At the end of 2020, the Bank's Net Stable Funding ratio (NSFR) stood at a particularly high of 151 percent compared to the Saudi Central Bank 's mandated regulatory minimum of 100 percent. This strong ratio reflected the high level of stable funding maintained by the Bank.

Management review (continued)

STRATEGY REPORT

IMPROVE OPERATIONAL & COST EFFICIENCIES

99.95%

99.95% uptime availability for IT systems

98%

98% of payments through straight-through-processing

- The Group's newly established centralised Operations Centre is continuing to deliver improved efficiency, productivity, and response times, while increased automation has reduced routine tasks.
- Information Technology (IT) implemented an SD-WAN network to all GIB branches and offices, resulting in substantial savings.
- The IT system's uptime availability level improved to 99.95 per cent.
- Approximately 1.5 million transactions and 98 per cent of all payments were handled via straight-through-processing, which improved by 10 per cent over 2019.
- GIB maintained its high ratings with the FICO enterprise Security Score band which reflects a lower level of risk; and continued to exceed the international benchmark of the Gartner Cyber Security Governance Maturity Model while ensuring on going compliance with all regulatory requirements with the relevant cyber security standards and frameworks.
- The Bank initiated steps for the use of automated decision engines to speed up the applications process; and the employment of data analytics to improve business agility and customer service.

ENHANCE SERVICE EXCELLENCE & QUALITY

بنك التنمية الاجتماعية
SOCIAL DEVELOPMENT BANK

Fast Finance for Micro and Small Enterprises in Saudi Arabia

beehive

- Wholesale Banking and meem launched additional innovative products and services, together with new digital solutions to streamline transactions.
- meem enhanced its service to special needs customers, including website and branch improvements, and production of a brochure in Braille.
- In a strategic partnership between GIB Saudi Arabia and the Social Development Bank, a new digital Fast Financing solution for micro, small and medium enterprises (MSMEs) was officially launched in the Kingdom. This was developed in collaboration with Beehive, marking the first-of-its-kind partnership between a bank and fintech in the region. Featuring a sophisticated decision making and lending process, this new solution will provide MSMEs with faster and more accessible financing.

Management review (continued)

STRATEGY REPORT

BECOME AN EMPLOYER OF CHOICE

92%

92% GCC Nationals

London Business School

- The Bank's management team was amplified through several senior executive appointments.
- GIB successfully implemented remote / flexible working policies due to Covid-19, to enhance the social well-being and productivity of employees.
- Total headcount at the end of 2020 was 594, of which 92 per cent were GCC nationals and 25 per cent were women.
- A total of 17 participants graduated from the Jammaz Al-Suhaimi Future Executive Programme in 2020, with the successful graduates being employed across the Bank. Eleven new graduates were inducted during the year, nearly half of whom were female.
- GIB provides internships for university students through its Tamheer Programme. A total of 57 students benefitted from the programme in 2020. The programme is designed to help students with practical work experience across different areas of GIB, and to gain a better understanding of banking and finance.
- The Bank partners with the London Business School to offer the Future Leaders Programme (FLP) and Senior Leaders Programme (SLP), through which to offer top talent a 'world-class learning journey'. There are currently two FLP cohorts and one SLP cohort taking part in this programme.
- The GIB Academy grew its digital library for e-learning courses, giving employees free access to over 2,000 courses and modules.

INNOVATION & DIGITISATION

ajeeb rewards program

تبادل TABADUL

FintechSaudi

- GIB expanded its range of digitally enabled solutions for clients:
  - **Wholesale Banking**
    - SWIFT FIN
    - Receivables Financing Platform
    - PoS and Payment Gateway
  - **meem**
    - e-Signature
    - e-Promissory Note
    - 'ajeeb' Loyalty rewards program launched for credit card customers
  - **Treasury**
    - Real Time RFQ for Online FX transactions
- GIB Saudi Arabia established a new partnership with the Saudi Company for Exchanging Digital Information (Tabadul) to develop and implement the automation and verification of letters of guarantee (LGs) transactions, through a new platform called Wthaq. This will subsequently be linked with the Ministry of Finance's Etimad e-procurement system. Wthaq will provide a standardised and unified platform with full security of information and enable the creation of a master repository for letters of guarantee.
- The Bank maintained its collaborative partnership with the Fintech Saudi, through which to drive its digitisation and innovation agenda.

Management review (continued)

COMBATING COVID-19

With nearly 600 employees working from multiple locations across Saudi Arabia, GIB faced significant logistical challenges in dealing with the impact of Covid-19.

The Bank's highly-proactive stance in tackling the global pandemic reinforced its core values of perceptiveness, collaboration, agility and integrity. GIB's early response proved highly effective in protecting employees, supporting customers, and ensuring that there was no business interruption.

This was achieved by a unified crisis management approach, with active involvement by the Board and senior management, and close collaboration between departments and lines of business; supported by the Bank's resilient digital architecture.

Business Continuity

- The Bank's Crisis Management Team (CMT) was mobilised at the end of January to assess the potential impact of Covid-19 and draw up contingency plans to address the various challenges.
- At the height of the pandemic the CMT convened virtually on a daily basis, before reducing in frequency once coronavirus precautionary measures began to take effect in each country.
- Implementation of GIB's business continuity management plan enabled 75 per cent of all employees to work from home using the Bank's agile technology infrastructure.
- Worked closely with our vendors to ensure no disruption of Bank services.
- Preventive measures in line with regulatory health and safety protocols were put in place in all offices and branches. These included on-site medical staff, temperature checks, wearing of masks, hand washing, social distancing, regular sanitisation, and the closure of meeting rooms and catering services.
- GIB took early pre-emptive action in the second quarter of the year to ensure the provision of adequate liquidity buffers.
- The Bank's cyber security framework was successfully tested against all relevant regulatory requirements; and maintained its high levels with the FICO Enterprise Security Score and the Gartner Cyber Security Governance Maturity Model. Further enhancements were made during the year to strengthen layered cyber security controls, overall information security governance and incident monitoring and management.
- Risk Management conducted a stress analysis of the entire loan portfolio, along with other specific impact assessments; and continued to closely monitor the Bank's credit, operational, liquidity and capital management risk exposures. A weekly non-payment meeting was conducted, at which all stressed accounts were reviewed.
- Developed new work methods to support off-site work and development by vendors.

Employees

- The Bank placed the highest priority on ensuring the health and well-being of its employees.
- Where appropriate, employees were provided with laptops and a virtual private network connection to enable them to work remotely from home.
- Employees received regular communications to keep them informed, reassured, healthy and productive.
- An employee Health & Safety Manual and Working from Home (WFH) Toolkits, were distributed to all employees, supported by WFH webinars.

Customers

- GIB Saudi Arabia adopted a proactive and helpful approach to supporting customers to weather the financial impact of Covid-19 on their businesses, in a number of different ways.
- These included regular contact to discuss specific concerns, provide updates on reliefs offered by regulatory bodies and provide support such as deferring repayments, extending additional liquidity and waivers of certain fees.
- Customers also benefitted from several new digital products and services, as well as bespoke Treasury solutions, which provided greater convenience, safety and security.

Community

- GIB Saudi Arabia donated SAR 2.0 million to the Health Endowment Fund (HEF) of the Ministry of Health. HEF used the funds to purchase additional ventilators, air purifiers and sterilisers for hospitals to support efforts to curb the spread of Covid-19.
- GIB Saudi Arabia also donated SAR 1.2 million to the Ministry of Human Resources and Social Development's Community Fund to be allocated to groups most affected by the coronavirus.
- In light of increased cyber threats during the pandemic due to greater use of technology, the Bank participated in a nationwide campaign, Khalaha Lek (Keep it to Yourself) endorsed by SAMA. The campaign included public figures, employees from meem and across the Bank to raise awareness about financial fraud and explain how people could protect their personal information and combat hackers.
- meem supported the spreading of Covid-19 awareness messages through a range of communication initiatives including the release of the 'Bukra Ahla' (Better Tomorrow) video which delivered a message of hope for a better future.

Regulators

Throughout the pandemic the Bank worked closely with SAMA to use our digital infrastructure to implement alternative working practices so that there was no disruption to GIB's operations, even during periods of lockdown.

Management review (continued)

REGIONAL TRANSACTIONS

WHOLESALE BANKING GROUP: CORPORATE BANKING

AlRaha AlSafi Food Company

Mandated Lead Arranger for Equity Bridge Loan with total facility of SAR 641 million for the privatisation of First Milling Company (MC-1) through the National Centre for privatisation and Saudi Grains Organisation, as part of the privatization programme for Saudi Arabia's flour mills and grain silos.

Cash Management

King Fahd Causeway Authority

Provided the operator of the Saudi-Bahrain causeway with a comprehensive Cash Management product deck including Payment services, Acquiring solutions (PoS & PG), Commercial cards, Cash Pick-up facility, and In-house banking (Virtual Accounting Management).

Rawabi Holding Group

Implemented direct integration with the Group's treasury management system to enable Cash Management products and services. These include vendor payments, payroll and bulk SADAD payments, which are equivalent to 100,000 transactions per year.

United Electronics Company (EXTRA)

Provided Cash Management products and services seamlessly through the international SWIFT network, with direct connectivity to their Treasury Management System (TMS) to optimise their liquidity and payments, with 100% automation.

Receivables Finance

Signify (Philips Lighting)

Implemented Receivables Finance solution for the purchase of accepted receivables from the company. This solution enables receivables to be removed from the company's balance sheet, together with the option to record cash immediately.

AWARDS

EMEA FINANCE MIDDLE EAST BANKING AWARDS

- Best Debt House Saudi Arabia

GLOBAL FINANCE 2020 INNOVATORS AWARDS

- Trade Finance: Best Electronic Supply Chain Finance Solution
- Best Digital Umrah Payments

GLOBAL FINANCE GCC REGIONAL AWARDS

- Best Trade Finance Services
- Best Open Banking APIs for KSA

GLOBAL FINANCE COUNTRY AWARDS

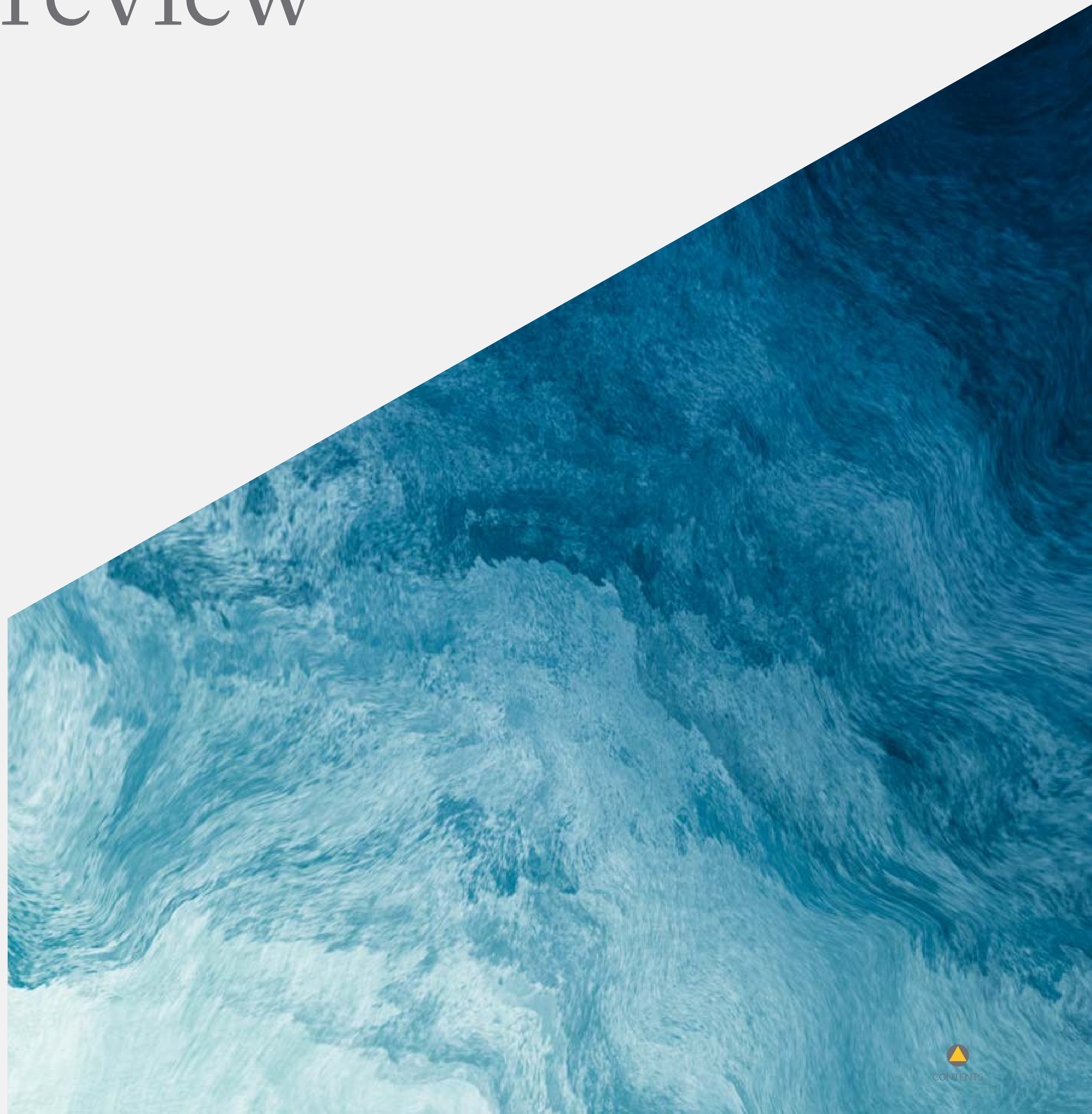
SAUDI ARABIA

- Best Corporate / Institutional Digital Bank
- Best Online Cash Management Services
- Best Trade Finance Services
- Best Open Banking APIs

GLOBAL INVESTOR MENA AWARDS

- Best Asset Manager Saudi Arabia

Corporate social responsibility review



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Corporate social responsibility review

At GIB, through our WAGIB Corporate Social Responsibility Programme, we have an enduring commitment to contribute to the economic, social and environmental sustainability of our communities.

During 2020, we placed particular emphasis on helping communities cope with the social and economic impact of Covid-19. This included providing support to government and charitable institutions in dealing with the coronavirus.

- GIB donated SAR 2 million to the Health Endowment Fund of the Ministry of Health. These funds were used to purchase additional ventilators, air purifiers and sterilisers for hospitals to support efforts to curb the spread of Covid-19.
- The Bank also donated SAR 1.2 million to the Saudi Arabian Ministry of Human Resources and Social Development's Community Fund to be allocated to groups most affected by the coronavirus.

Corporate social responsibility review (continued)

COMMUNITY WELL-BEING

Autism Center of Excellence

GIB Board Member, Sultan bin Abdul Malek Al Sheikh, represented the Bank at the official inauguration of the Autism Center of Excellence in Riyadh on 8th November 2020. Mr. Al Sheikh received an award on behalf of the Bank from HE Ahmed Al-Rajhi, Minister of Human Resources and Social Development; and HE Ahmed Alkholifey, Governor of the Saudi Central Bank (SAMA) in recognition of GIB's support. The Autism Center of Excellence serves individuals with autism spectrum disorder (ASD) and provides them with the tools they need to integrate with society, while coordinating with their families.

Golfing Partner

For the second year running, GIB was a main partner of the Saudi International Golf tournament, which is part of the European Tour. The four-day event, in January and February, took place at the Royal Greens Golf Course and Country Club in King Abdullah Economic City, with over 130 professional players competing for the US$ 3.5 million prize fund. This prestigious event contributes to developing the Kingdom's sport, entertainment and tourism sectors, in line with the goals of Vision 2030.

CAREER DEVELOPMENT

Developing Leadership

GIB partners with the London Business School to provide the Future Leaders Programme (FLP) and Senior Leaders Programme (SLP), to offer the Bank's top talent a 'world-class learning journey'. There are currently two FLP and one SLP cohorts taking part in this leadership development programme.

Nurturing Local Talent

GIB provides university graduates and students with career development and work experience opportunities through the following programmes:

- Jammaz Al-Suhaimi Future Executive Programme

  A total of 17 participants graduated from this programme in 2020, and were employed across the Bank. Eleven new graduates were inducted during the year, of whom 47 per cent were females.

- Tamheer Internship Programme

  GIB provided practical work experience for 57 students during the year.

Corporate social responsibility review (continued)

WOMEN'S EMPOWERMENT

G20
SAUDI ARABIA 2020

W20
SAUDI ARABIA 2020
WOMEN

Alnahda Philanthropic Society for Women

GIB Saudi Arabia signed a partnership agreement with this Riyadh-based non-profit society, which aims to empower women through financial and social support, training, employment and advocacy. Appointed by Royal Decree as the host organisation for the Women 20 (W20) Engagement Group of the G20 under Saudi Arabia's presidency in 2020, Alnahda organised a series of virtual national dialogues.

Moving Mountains Workshop

GIB Women's Empowerment Committee organised a special motivational event for 60 female staff across GIB. Under the theme 'Moving Mountains: I Can, I Will', the workshop provided advice and guidance for women seeking to progress their careers and assume leadership roles in the Bank.

Women in Leadership Roles

GIB's commitment to gender diversity and inclusion embraces strengthening the role of female professionals across the Bank and supporting them to assume leadership roles. Women currently comprise 25 per cent of the total headcount, with one board member.

Career Advice Round Table

Twenty female employees from across GIB attended a special round table with GIB Saudi Arabia Board Member, Anju Patwardhan, to learn from her experience as a successful female professional in finance and technology. She shared stories of her life and work, and how her decisions and choices reflected on her career to date.

Ladies Golf Sponsorship

In collaboration with the Public Investment Fund, GIB sponsored the inaugural Aramco Saudi Ladies International Golf Tournament, marking the first time that professional female golfers played competitively in the Kingdom. One of this event's objectives is to encourage more women to take up golf as a recreational sport, in line with Saudi Arabia's Vision 2030.

SUSTAINABLE BANKING & FINTECH

MSME Digital Lending Platform

In July 2020, a new digital lending platform for micro, small and medium enterprises (MSMEs) was officially launched in Saudi Arabia. It is the result of a strategic cooperation between GIB and the Social Development Bank, which aims to contribute to achieving the goals of Vision 2030. These include increasing the contribution of MSMEs to the local economy and enabling financial institutions to support private sector growth; as well supporting digital transformation in the Kingdom. The platform has been developed by GIB and Beehive (service provider), in the first-of-its-kind partnership between a bank and fintech in the region. The platform, which features a sophisticated decision-making and lending process, provides MSMEs with faster and more accessible financing.

Financing Affordable Housing

GIB has partnered with the Saudi Real Estate Development Fund to provide mortgages under the Ministry of Housing's innovative Sakani programme, which aims to increase the rate of home ownership in the Kingdom through the provision of affordable housing and financing. To facilitate the provision of convenient and speedy home finance, GIB's digital retail bank – meem – has launched a new mobile flow lending mortgage application.

LG Process Automation

GIB Saudi Arabia has formed a new partnership with the Saudi Company for Exchanging Digital Information (Tabadul) to develop and implement the automation and verification of letters of guarantee (LGs) transactions, through a new platform called Wthaq. This will subsequently be fully linked with the Ministry of Finance's Etimad e-procurement system. Wthaq will provide a standardised and unified platform with full security of information and enable the creation of a master repository for letters of guarantee.

Khalaha Lek Initiative

meem employees took part in a new cyber security campaign by Saudi banks. The Khalaha Lek (Keep it to Yourself) initiative aims to raise awareness about financial fraud, explain how people can protect their personal information, and combat hackers and other online tricksters.

Financial review

"The strong foreign exchange earnings reflected success in the cross-selling of innovative products to meet customers' needs and requirements, and the development of new products to meet those needs."

GIB Saudi Arabia (GIB) was incorporated as a Saudi Closed Joint Stock Company on 3rd April 2019 and the period from 3rd April 2019 to 31st December 2019 (the period) was the first year of operations. Similar to many regional and international banks, the Covid-19 pandemic and ensuing public health and economic crisis impacted GIB's financial performance in 2020. The impact of global interest rate cuts; reduced business activity, especially in trade finance and related areas and increased stock market volatility are some of the factors that impacted companies and banks worldwide.

GIB recorded total operating income of SAR 627.6 million for the year 2020 against SAR 493.3 million for the previous period (9 months period) and a net loss of SAR 437.9 million for the year 2020 against the net income of SAR 7.0 million for the previous period.

Net special commission income, which at SAR 461.1 million for the year 2020 against SAR 399.7 million in previous period, represented the Bank's largest income source. This reflected a positive start in the implementation of the Bank's strategy, including meaningful progress in the strategically important global transaction banking and retail banking initiatives.

Fee and commission income at SAR 94.3 million for the year 2020 against SR 57.4 million for the previous period comprised 15 per cent (2019: 12 per cent) of total operating income. Foreign exchange income at SAR 26.4 million for the year 2020 (2019: SAR 15.5 million) comprised 4 per cent (2019: 3 per cent) of total operating income, and primarily comprised of revenue from customer related activities; in particular, revenues derived from bespoke structured products designed to assist customers in hedging their foreign exchange exposures in volatile markets.

Dividend income of SAR 10.8 million for the year 2020 (2019: SAR 13.5 million) was predominately derived from the Bank's equity investments.

Financial review (continued)

NET SPECIAL COMMISSION INCOME

Net special commission income at SAR 461.1 million for the year 2020 against SAR 399.7 million for the previous period was principally derived from the following sources:

- Special commission income on the loans and advances portfolio
- Money book activities,
- Special commission income on the investment securities portfolio

Net special commission income is also net of the cost of premiums over the benchmark interest rates on deposits.

Special commission income on the loans and advances portfolio accounted for 81 per cent of the Bank's total special commission income against 77 per cent in prior period.

Money book earnings representing income on inter-bank and customer placements and deposits accounted for 10 per cent against 16 per cent of special commission income in prior period and accounted for 95 per cent against 99 per cent prior period of the total special commission expense.

Special commission income on the investment securities portfolio accounted for 9 per cent against 7 per cent in the prior period.

NON-INTEREST INCOME

Non-interest income comprised of fee and commission income, foreign exchange income, trading income, and other income.

Fee and commission income was at SAR 94.3 million for the year 2020 against SAR 57.4 million in prior period and an analysis of fee and commission income is set out in note 20 to the financial statements. Commissions on letters of credit and guarantees were the largest source of fee-based income, comprising 80 per cent for the year 2020 and 75 per cent in the prior period of gross fee and commission income.

Foreign exchange income was at SAR 26.4 million for the year 2020 against SAR 15.5 million for the prior period. Foreign exchange income principally comprised income generated from customer-initiated foreign exchange transactions that were offset in the market with matching transactions. Accordingly, there is no market risk associated with the transactions that contribute to this material source of income. The strong foreign exchange earnings reflected success in the cross-selling of innovative products to meet customers' needs and requirements, and the development of new products to meet those needs. A growing demand was witnessed for these products as customers value the benefits derived from effectively managing and hedging their currency exposures. During the period, the Bank continued to expand its customer base to create a broader and a more desirable diversification of earnings from these products, as well as generating repeat business from existing clients.

Dividend income was at SAR 10.8 million for the year 2020 against SAR 13.4 million for the prior period and represented dividends from the Bank's strategic equity portfolio. While the Bank's various trading activities recorded SAR 2.9 million for the year 2020 income against SAR 4.7 million income for the prior period. Trading income is reported inclusive of all related income, including gains and losses arising on the purchase and sale, and from changes in the fair value of trading securities, customer-related interest rate derivatives, and including all related funding costs. The Bank has a limited risk appetite for trading activities, with majority of the Bank's trading activities relating to seed investments in funds managed by the asset management arm of the Bank.

OPERATING EXPENSES

Operating expenses was at SAR 527.3 million for the year 2020 against SAR 380.6 million for the prior period.

Salaries and employee-related expenses, which at SAR 264.3 million for the year 2020 against the SAR 187.4 million for the prior period, accounted for around 50 per cent of total operating expenses in both periods. With a headcount of 800 in 2020 and 718 employees in prior period including outsourced employees of 206 in 2020 and 150 in prior period.

Rent and premises-related expenses was at SAR 14.7 million for the year 2020 against SAR 14 million for the prior period. Depreciation and amortisation expense was at SAR 79.9 million for the year 2020 against SAR 63.9 million in prior period.

Other operating expenses was at SAR 168.5 million for the year 2020 against SAR 115.3 million in prior period and principally included IT and other maintenance expense of SAR 48.8 million (2019: SAR 28.9 million), advertising expenses of SAR 20.3 million (2019: SAR 16.5 million), managed services of SAR 10.7 million (2019: SAR 4.6 million) and legal, consulting and other fees of SAR 14.4 million (2019: SAR 13.6 million). During the year a number of IT-related resources were transferred to a managed service arrangement whereby the Bank engaged vendors to provide specified services rather than engage resources directly. These arrangements resulted in a more cost-effective provision of routine IT support services.

PROVISIONS

During the year, the Bank made a net loan provision charge of SAR 524.2 million (2019: SAR 121.8 million). Consistent with the Bank's prudent approach to provisioning, increased provisions were proactively made during the period. The charge comprised the net specific provision charge (stage 3) of SAR 454.9 million for the year (2019: SAR 101.9 million) and a non-specific (stage 1 and 2) provision charge of SAR 69.3 million (2019: SAR 19.9 million).

CAPITAL STRENGTH

Total equity amounted to SAR 7,059.2 million at 31 December 2020 (31st December 2019: SAR 7,506.9 million).

With a total regulatory capital base of SAR 7,243.9 million (2019: SAR 7,637.5 million) and total risk-weighted exposure of SAR 27,356.3 million (2019: SAR 25,603.4 million), the risk asset ratio calculated for 2020 in accordance with SAMA guidelines was 26.5 per cent (2019: 29.8 per cent) while the tier 1 ratio was 25.8 per cent (2019: 29.3 per cent).

The risk asset ratio incorporates credit, market and operational risk-weighted exposures.

Financial review (continued)

The Basel III report set out in a later section of the Annual Report provides further detail on capital adequacy and the bank's capital management framework. The Bank's policy is to maintain a strong capital base so as to maintain investor, counterparty and market confidence and to sustain the future development of the Bank's business.

ASSET QUALITY

The geographical distribution of risk assets is set out in note 26 to the financial statements. The credit risk profile of financial assets, based on internal credit ratings, is set out in note 26.2 to the financial statements. This note demonstrates that 72 per cent of investment securities and loans and advances, were rated 4 or above, i.e., at or above the equivalent of investment-grade rated.

Further assessment of asset quality can be facilitated by reference to note 29 to the financial statements on the fair value of financial instruments. Based on the valuation methodologies set out in that note, the net fair values of all on- and off-balance sheet financial instruments on 31 December 2020 and 2019 were not significantly different to their carrying amounts.

At the period end, cash and balances with SAMA and due from banks and other financial institutions accounted for 31 per cent (2019: 32 per cent) of total assets, investment securities accounted for 10 per cent (2019: 9 per cent), while loans and advances represented 57 per cent (2019: 57 per cent).

Investment Securities

Investment securities totalled SAR 3,161.1 million at 31st December 2020 (2019: SAR 2,773.8 million). The investment securities portfolio comprises investment-grade rated debt securities issued by major international and regional financial institutions and government-related entities.

Investment securities comprise two types of debt security portfolios and a limited investment in equities and equity funds. The larger debt security portfolio comprises fixed rate securities that have been swapped to yield constant spreads over SAIBOR. These accounted for SAR 2,182.3 million (2019: SAR 1,764.7 million), or 85 per cent (2019: 81 per cent), of total investment debt securities in 2020. The smaller debt security portfolio represents the floating rate securities amounting to SAR 384.9 million at the end of 2020 (2019: SAR 427.8 million).

Equity investments at the end of 2020 were SAR 594.5 million (2019: SAR 584.7 million) and primarily comprised listed equities and equity funds.

Total investment securities provision as at 31st December 2020 represented non-specific provisions of SAR 0.7 million (Stage 1) (2019: SAR 3.4 million (stages 1 and 2)).

Loans and Advances

Loans and advances amounted to SAR 18,761.7 million at the end of the year 2020 (2019: SAR 17,490.4 million). Details of the classification of loans and advances by industry are set out in note 26.2 to the financial statements while the geographical distribution of loans and advances is contained in note 26.1.

The credit risk profile of loans and advances, based on internal credit ratings, is set out in note 26.2 to the financial statements. At year end 2020 SAR 13,307.9 million (2019: SAR 10,560 million) or 69% per cent (2019: 58 per cent) of total loans were rated 4 or above, i.e. the equivalent of investment grade-rated.

Total loan loss provisions at 31 December 2020 amounted to SAR 623.9 million (2019: SAR 798.7 million). Counterparty specific provisions (stage 3) amounted to SAR 439.9 million (2019: SAR 671.4 million) while non-specific provisions (stages 1 and 2) were SAR 184 million (2019: SAR 127.3 million).

Specific provisions are determined based on the recoverable amount of the loan. The recoverable amount is measured as the present value of the expected future cash flows discounted based on the interest rate at the inception of the facility.

For the purpose of the calculation of the non-specific (stages 1 and 2) provisions, the Bank only takes account of collateral held in the form of cash or exchange-traded equities. While collateral in the form of securities, unlisted equities and physical assets is used for risk mitigation and protection purposes, it is not taken into account in the calculation of the non-specific provision.

Other Asset Categories

Cash and balances with SAMA and due from banks and other financial institutions, amounting to SAR 10,191.4 million (2019: SAR 9,691.9 million), represented 31 per cent of the total assets at the end of the year 2020 (2019: 32 per cent). They principally comprised cash and balances with central banks and banks predominately in the Kingdom of Saudi Arabia and the wider GCC region.

Commitment Exposure

Commitment exposure at 31st December 2020 amounted to SAR 12,155.1 million (2019: SAR 11,382.7 million). Commitments comprise of all credit-related contingent items. An analysis of commitment exposure by maturity is contained in note 18 to the financial statements. As is evident from this note, SAR 9,366.2 million (2019: SAR 7,843.5 million) or 77 per cent (2019: 69 per cent) of total exposure to counterparties mature within 12 months and are predominately concentrated in the Kingdom of Saudi Arabia, GCC and Middle East.

FUNDING

Due to banks and other financial institutions, and customer deposits at 31st December 2020 was SAR 24,689.1 million (2019: SAR 22,295.2 million). Customer deposits amounted to SAR 22,368.4 million at the end of 2020 (2019: SAR 21,716.8 million), representing 91 per cent (2019: 97 per cent) of total deposits.

Total deposits are analysed by geography in note 26.1 to the financial statements. The majority of total deposits were derived from counterparties in the Kingdom of Saudi Arabia.

Further commentary on liquidity and funding is provided in the Basel III Pillar III disclosures report.

Board of Directors Report

1. Overview

Operating in Saudi Arabia since 2000 as a branch, Gulf International Bank- Saudi Arabia ("**GIB KSA**") was incorporated in Saudi Arabia on April 2019 as a subsidiary of Gulf International Bank B.S.C. ("**GIB**") and is owned equally by the Public Investment Fund of Saudi Arabia (PIF) and GIB. GIB KSA is licensed by the Saudi Central Bank ("**SAMA**") and offers a full range of banking products through its branches in Riyadh, Jeddah and Dhahran.

2. Shareholding Structure

	Holding %	Number of Shares	Value of Share
Gulf International Bank B.S.C.	50%	375,000,000	SAR 10
The Public Investment Fund	50%	375,000,000	SAR 10

3. Geographical coverage

GIB is the first foreign domiciled bank to convert its branches into a local commercial bank in the Kingdom. GIB KSA is headquartered in the Eastern Province and operates branches in Riyadh, Jeddah and Dhahran. GIB KSA is a subsidiary of GIB, which itself is headquartered in Bahrain with branch offices in the United Arab Emirates, the United Kingdom, and the United States of America. In addition, GIB Capital is a CMA licensed entity fully owned by GIB, which has been operating and providing various investment banking services in the Kingdom since April 2008.

4. Subsidiaries and Group Companies

GIB KSA owns shares in two companies:

i. Dar Enjaz Gulf Real Estate Company, which is a subsidiary fully owned by GIB KSA, and is a limited liability company registered in the Kingdom of Saudi Arabia and regulated by the Ministry of Commerce. The main activities of the company are dealing, managing and holding real estate on behalf of GIB KSA as security for the GIB KSA's financings and selling, purchasing and mortgaging such real estate as part of its objectives.

ii. Bayan Credit Bureau, in which GIB KSA owns 15% of the shareholding, and is a closed joint stock company registered in the Kingdom of Saudi Arabia and regulated by SAMA and the Ministry of Commerce. The company is a credit information provider.

5. Strategy

GIB KSA's goal is to be a trusted partner recognised for innovation, regional expertise and international reach. Leveraging GIB's international network and offerings enables GIB KSA to capture the associated trade and financial flows between the Gulf Cooperation Council ("**GCC**") countries and the rest of the world. GIB KSA's value proposition places it in a unique position to capitalise on strong core business activities in the GCC region, including commercial banking, project and structured finance, investment banking, Shariah compliant banking and asset management. GIB KSA aims to leverage, among other banking activities, its digital expertise in the retail banking sector, gained through the establishment of the world's first Shariah compliant Digital Bank- meem Saudi Arabia.

The strategic priorities across the business pillars remain defined and continue to be centred around the following five core themes:

i. increase and diversify revenues;
ii. deliver an effective funding profile;
iii. improve operational and cost efficiency;
iv. enhance service excellence and quality; and
v. become an employer of choice.

In order to enable the achievement of the strategic goals, GIB KSA continues to focus and prioritise initiatives, increase the delivery capability of the key support functions (Operations, IT, HR , Risk and Finance), refine business steering and strengthen data backbone, effectively manage and steer change initiatives through a dedicated Transformation Office and strengthen collaboration across businesses and functions. While Wholesale Banking and Treasury operations remain key focus areas of GIB KSA, albeit with a sharper attention centred around diversifying the client base and increasing cross-selling, further expanding the Global Transaction Banking, Retail and Asset Management businesses have become central to the management team's plan going forward. GIB KSA will leverage

Board of Directors Report (continued)

its international presence and further strengthen its credible niche position while scaling up in size, foremost in Saudi Arabia where the capital injection and market opportunity presents significant opportunities. There is greater emphasis and focus on digitalisation, automation and Environmental, Social, and Corporate Governance (ESG) initiatives.

During 2020, in light of the pandemic and challenges posed by Covid-19, GIB KSA undertook the following in order to best respond to the current and near-term market conditions:

- Portfolio re-assessment to review risk appetite, client segmentation, strategic initiatives and project priorities;
- Proactive and continuous assessment of GIB KSA's strategic risk and reprioritisation of strategies for all our business areas;
- Supporting our client base through initiatives such as deferred payments and setting up support hotlines;
- Successfully implemented a flexible working environment;
- Updated as well as successfully tested business continuity plans; and
- Extended support to our communities through various gestures.

Business strategies will continue to undergo regular assessment to ensure a proactive prioritisation based on key criteria (including cost optimisation/revenue generation, digitisation, and market readiness).

6. Risk Management

GIB KSA has established a robust Risk Management Framework and governance structure to maintain a prudent and disciplined approach to risk taking by upholding a well thought out risk strategy, risk appetite and a comprehensive set of risk management policies and processes.

GIB KSA adopts a holistic view of risks by understanding risks on an enterprise-wide basis analysed through a top-down (risk aggregation) and a bottom-up (risk decomposition) approach. Risk aggregation takes a portfolio view of risks aggregated across GIB KSA's business units taking due consideration of the portfolio effects and correlation of risks prior to determination of the management approach to each single risk. This approach provides guidance to allow balancing risk and reward optimally. Risk decomposition ensures a comprehensive identification and prioritisation of all material risks and the definition and implementation of risk policies and processes that control daily decision making throughout GIB KSA. This approach enables employees to make the right risk-return trade-offs in day-to-day activities.

The Board delegates some of its supervisory responsibilities to the Board Risk Policy Committee (BRPC) which assists the Board in reviewing the risk profile of GIB KSA, establishing the Risk Management Framework and relevant controls, reviewing the risk appetite, policies, and overall limits and parameters within which GIB KSA conducts its business.

GIB KSA has established a dedicated Risk Management function involving personnel with adequate skills and experience. The Risk Management function is independent of business units and is headed by the Chief Risk Officer (CRO) with a direct reporting line to the Board Risk Policy Committee.

The key material risk types that GIB KSA is exposed to, given its current balance sheet, include Credit Risk, Market Risk, Operational Risk, Liquidity Risk and Information and Cyber Security Risk. The following provides an overview of each of these risk types in terms of GIB KSA's definition of the risk and the respective control framework.

Credit Risk

Credit risk is the risk that a customer, counterparty or an issuer of securities or other financial instruments fails to perform under its contractual payment obligations thus causing GIB KSA to suffer a loss in terms of cash flow or market value. Credit risk is the predominant risk type faced by GIB KSA in its banking, investment and treasury activities, both on and off-balance sheet.

Credit risks could arise from a specific deterioration in the credit quality of certain borrowers, issuers and counterparties of GIB KSA, from a general deterioration in local or global economic conditions, decline in collaterals value, or from systemic risks within the financial system. This could affect the recoverability and value of GIB KSA's assets which may result in an increase in GIB KSA's provisions for the impairment of loans, securities and other credit exposures.

Credit risks of GIB KSA are actively managed and monitored in accordance with well-defined credit policies and procedures and comprehensive limit setting and approval authorisation requirements. GIB KSA seeks to minimise its credit exposure using a variety of techniques including entering netting agreements with counterparties that permit the offsetting of receivables and payables, obtaining collateral and seeking third party guarantees.

Market Risk

Market risk is the current or prospective risk that changes in financial market prices and rates will cause fluctuations in the value and cash flows of financial instruments. The most significant market risks to which GIB KSA is exposed are interest rate, foreign exchange and equity price risks associated with its trading, investment and asset and liability management activities. Changes in interest rate levels and spreads may affect the interest rate margin realised between GIB KSA's lending and investment activities and its borrowing costs, and the value of assets that are sensitive to interest rate and spread changes. Changes in foreign exchange (FX) rates may affect the value of assets and liabilities denominated in foreign currencies and the income from foreign exchange dealing.

GIB KSA actively manages its market risk through planning and assessment to determine the nature and level of market risk exposure that GIB KSA is permitted to undertake, a rigorous process of security selection and approval, Value-at-Risk analysis to provide a comprehensive and consistent measure of GIB KSA's market risk exposure to adverse market movements, limit management to monitor portfolio concentrations, stress testing to assess and manage the risks associated with extreme market movements on the market values of the portfolios and a prudent valuation process to determine the mark-to-market or fair values of market risk related financial instruments.

Board of Directors Report (continued)

Operational Risk:

Operational risk is the risk of losses resulting from inadequate or failed internal controls or procedures, systems failures, fraud, business interruption, compliance breaches, human error, management failure or inadequate staffing.

While operational risk cannot be entirely eliminated, it is managed and mitigated by ensuring that the appropriate infrastructure, controls, systems, procedures, and trained and competent people are in place throughout GIB KSA. The Operational Risk Management (ORM) framework is based on the guidelines provided by the Basel Committee on Banking Supervision (BCBS) and SAMA and encompasses the management and oversight of operational risk activities across the Bank. The ORM framework facilitates the management of operational risk across the three lines of defence and serves to promote a culture of collaboration, integrity, agility and perceptiveness, which has been strengthened by the implementation of an ORM system.

A strong internal audit function makes regular, independent appraisals of the control environment in all identified risk areas.

Liquidity Risk:

Liquidity risk is the risk that GIB KSA will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately.

GIB KSA's liquidity management policies are designed to ensure that funds are available at all times to meet the funding requirements of GIB KSA, even in adverse conditions. In normal conditions the objective is to ensure that there are sufficient funds available not only to meet current financial commitments but also to facilitate business expansion. These objectives are met through the application of prudent liquidity controls. These controls provide security of access to funds without undue exposure to increased costs from the liquidation of assets or the aggressive bidding for deposits.

GIB KSA's liquidity controls ensure that limits are in place over the medium-term horizon through currency wise gap limits, diversified funding sources and adequate liquidity buffers. Additionally, GIB KSA conducts frequent stress testing of its resilience to potential stress events on cashflows and other key ratios. GIB KSA ensures that the right parameters and reporting are in place for monitoring liquidity and funding risks which are fully integrated with Early Warning Indicators, Risk Appetite Limits and the Contingency Funding Plan (CFP).

Information and Cyber Security Risk:

Information and Cyber Security risks can be commonly defined as an exposure to harm or loss resulting from breaches or attacks on information systems. Cyber Security is a combination of technology, processes and controls to protect organisation's information assets such as systems, applications, databases, etc. from any intrusions or digital attacks.

The Cyber Security Strategy of GIB KSA is aligned with GIB KSA's strategy and consists of a combination of strategic objectives, requirements of regulatory frameworks supported by policies and procedures and best practices to secure and support GIB KSA's delivery objectives by ensuring the protection of GIB KSA's information assets.

Cyber Security risk is minimised greatly by the implementation of layered security controls, which include third-party services and internally implemented controls. The controls implemented comprise of external and internal perimeter controls, third-party maturity assessments, benchmarking and brand monitoring, database security, etc.

The Information Security Department (ISD) consists of the GRC function which manages the overall governance, risk and compliance from a security stand-point, Security Operations Centre (SOC) which focuses on monitoring the security 24x7, Application Security that manages security of the applications, Infrastructure Security team which actively manages the security infrastructure, Security Services Team which is a centralised function that facilitates the provisioning and de-provisioning of user access and the Program Management Team that supports implementation of security solutions and manage enterprise wide security programs.

Fraud Risk

GIB KSA is committed to preventing, detecting and reporting fraud, it recognises that in addition to any financial damage suffered, fraud may also reflect adversely on its image and reputation; damage to its financial position and its solvency (in exceptional cases) and potential loss of customers and clients.

GIB KSA's aim therefore is to limit its exposure to fraud by:

- defining, setting and maintaining cost effective control procedures to identify and deter fraud;
- taking firm action against any individual or group perpetrating fraud against the Bank or its customers;
- encouraging employees to be vigilant and to report any suspicion of fraud, providing them with suitable channels of communication and ensuring sensitive information is treated appropriately;
- thoroughly investigating instances of alleged fraud and pursuing perpetrators to seek restitution of any assets fraudulently obtained and recovery of costs; and
- assisting the police and other appropriate authorities in the investigation and prosecution of those suspected of fraud.

Management of fraud risk shall be the collective responsibility of all GIB KSA employees.

In addition to the above, GIB KSA manages other types of risks including (but not limited to) franchise risk, human/ organisational resources risk, reputational risk, strategic risk, etc.

Board of Directors Report (continued)

7. Financial Highlights

(SAR millions)	2020
Total Operating Income	627,634
Total Operating Expenses Before Impairment Charge	527,329
Total Operating Expenses After Impairment Charge	1,054,131
Net Loss After Zakat	437,995
Tier 1 Ratio	25.80 %
Total Ratio	26.48 %

International rating agencies have endorsed their confidence on GIB KSA's financial strength. Fitch Ratings affirmed GIB KSA's long term issuer default ratings (IDR) at BBB+ with a negative outlook and highlighted GIB KSA's sound management strategy, strong capitalisation and niche wholesale franchise among the key rating drivers. Moody's investor services also affirmed GIB KSA's long term deposit rating at Baa1 with a negative outlook. Moody's have cited GIB KSA's strong loss absorption capacity resulting from its strong capital adequacy ratios as its key strength. The negative outlook is driven by Moody's view of the potential weakening of the government's capacity to support Saudi banks and the deteriorating operating environment faced by banks operating in Saudi Arabia.

8. Financial Reporting Standards

The financial statements of GIB KSA have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organisation for Certified Public Accountants (SOCPA) and in compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and by-laws of GIB KSA.

9. Loans and Advances

(SAR Thousands)	31 December 2020
Gross loans and advances	19,385,716
Allowance for impairment	623,998
Loans and advances, net	18,761,718

10. Internal Audit Function

The Internal Audit reports functionally to the Audit Committee and administratively to the Chief Executive Officer, making it independent of management, with the ability to make objective judgements, and having the authority to conduct its work across the whole organisation without constraint. The Internal Audit review of GIB KSA's corporate governance framework is conducted annually as a separate project since the incorporation of GIB KSA in April 2019. The latest report was issued in November 2020. The purpose of the audit was to provide a reasonable assurance on the corporate governance framework of GIB KSA in light of the SAMA rules and guidance prescribed in "Principles of Corporate Governance for Banks Operating in Saudi Arabia".

The overall conclusion of the audit was that the corporate governance framework of GIB KSA considered adequate and effective in providing a sound framework to control the risks inherent in GIB KSA's current business activities.

11. External Auditors

At the Annual Shareholders General Assembly, held on 29 March 2020, EY and KPMG were appointed as external auditors for the year ending 31 December 2020.

12. Payment of Zakat and Income Tax

The provision of Zakat liability is estimated based on the results of operations of GIB KSA for the period ended and the financial position at 31 December 2020. GIB KSA has accrued Zakat liability of SAR 11,498,000 for the period ended 31 December 2020.

GIB KSA has filled zakat declaration with General Authority of Zakat and Tax (GAZT) for the period from 3rd April 2019 to 31st December 2019. However, no assessment has been raised by GAZT.

13. Financial Compensation and Remuneration

GIB KSA has engaged an external consultant to formulate the variable remuneration policy which was approved by the Nomination and Remuneration Committee (NRC) in December 2019 and by the GIB KSA's Board of Directors.

An annual review of GIB KSA's compensation structure is conducted by the auditors and submitted to SAMA along with management reports. This is in line with the guidance issued by SAMA and the Financial Stability Board principles and standards as well as in line with market practice. GIB KSA is fully compliant with the Compensation Practices and Policies as prescribed by SAMA.

According to the Labour Law of Saudi Arabia and GIB KSA's internal policies, employee end of service benefits become due for payment at the end of an employee's period of service. End-of-service benefits have been provided based on the employees' length of service. As of 31 December 2020, the total end-of-service provision is SAR 50,243.

14. Micro, Small and Medium Enterprises (MSMEs)

The MSME unit was established in 2020 as part of the Wholesale Banking Division in GIB KSA. The objective was to create a dedicated team that serves MSMEs through providing a differentiated proposition and services that will support achieving the Kingdom's Vision 2030 for increasing the GDP contribution of MSMEs.

Being part of the Wholesale Banking Division will enable the MSME team to garner opportunities and create synergies, while utilising the baseline of products and services currently being offered.

GIB KSA will provide products and services appropriate with each customer segment across MSMEs and across a variety of sectors and locations, leveraging on GIB KSA's strong digital proposition and platforms.

A primary product in the proposition is the Digital Lending Programme, which aims to address the core pain points for MSMEs through providing fast financing through a simple digital process. The Programme will enable GIB KSA to reach a wider spectrum of customers that could not be served through regular customer propositions.

Board of Directors Report (continued)

15. Compliance, Anti-Money Laundering and Counter Terrorism Financing

Compliance

The Compliance framework adopted by the Board reflects the principles for promoting sound compliance practices at GIB KSA. It also demonstrates GIB KSA's adherence to applicable legal and regulatory requirements, and to high professional standards. The role of the Compliance function is to assist Senior Management in ensuring that the activities of GIB KSA and its staff are conducted in conformity with applicable laws and regulations, and generally with sound practices pertinent to those activities. The KSA Head of Compliance reports directly to the Board through the Audit Committee.

Compliance risk is the risk of legal or regulatory sanctions, material financial loss or damage to the reputation of GIB KSA arising from failure to comply with the requirements of applicable laws, rules, regulations and related self-regulatory organisations' standards and codes of conduct (collectively, applicable laws, rules and regulations). Compliance independently assesses compliance risk and evaluates the business and control units for adherence to applicable laws, rules and regulations, including identifying compliance issues and risks, performing independent spot checks, and reporting on the state of compliance activities in GIB KSA.

GIB KSA's approach to the management of compliance risk is described in the Compliance Policy, which outlines the requirements of GIB KSA's compliance program, and defines roles and responsibilities of Board, Senior Management, Business and Control units, Internal Audit, and the three lines of defence in managing compliance risk. The requirements work together to drive a comprehensive risk-based approach for the proactive identification, management and escalation of compliance risks in GIB KSA.

The Compliance Policy also sets the requirements for reporting compliance risk information to executive management as well as the Board or appropriate Board level committees in support of Compliance responsibility for conducting independent oversight of the GIB KSA's compliance risk management activities. The Board provides oversight of compliance risk mainly through its Audit Committee.

In ensuring that the tone emanates from the top, the CEO issues a yearly message to GIB KSA employees reminding everyone of the importance of complying with all laws and regulations applicable to GIB KSA's operations. Good compliance behaviour is also rewarded by making it a mandatory measurement criterion in staff evaluations.

Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT)

GIB KSA's current AML/CFT procedures and guidelines conform to the legal and regulatory requirements of the Kingdom of Saudi Arabia. These legal and regulatory requirements largely reflect the FATF recommendations on Money Laundering.

Systems are in place to ensure that business relationships are commenced with clients whose identity and activities can reasonably be established to be legitimate; to collect and record all relevant client information; to monitor and report suspicious transactions; to provide periodic AML/CFT training to employees; and to review with external auditors the effectiveness of the AML/CFT procedures and controls. GIB KSA's AML/CFT procedures prohibit dealing with shell companies/ banks. A proactive structure of officers is in place to ensure compliance with AML/CFT procedures, and the timely update of the same to reflect the changes in regulatory requirements. This structure consists of the Head of AML and the Money Laundering Reporting Officer, MLRO.

16. Fines and Penalties

The below table shows the fines by SAMA for the 2020 fiscal year:

Penalty Reference	Subject	Amount (SAR)	Quarter
084-2020	Self Supervisory Unit	600,000	Q3
42007295	SAMANet- Judicial Orders	115,000	Q3
42014500	Debit Burden Ratio Breach- Responsible Lending	207,500	Q4
214-2020	SARIE Charging Policy	3,000	Q4
263/2020	Consumer Protection Inspection	425,000	Q4
		1,350,500	

17. Effectiveness of Internal Controls Environment

Senior management is responsible for establishing, maintaining and monitoring GIB KSA's internal controls systems to ensure the effective functioning of GIB KSA. The internal controls systems comprise the establishment and implementation of policies, procedures, processes, systems and a risk framework across all functions of GIB KSA, which are approved by the Board of Directors.

The *Board of Directors*, supported by the *Board Risk Policy Committee* and the *Audit Committee*, is responsible for ensuring that the internal systems and controls framework are effective for GIB KSA's business and associated risks.

The *Board Risk Policy Committee* sets the organisation's risk appetite and also seeks to identify the principal risks facing the organisation, together with the management. It has oversight in respect of GIB KSA's overall risk appetite, parameters and limits within which GIB KSA conducts its activities to seek assurance on an ongoing basis that the management is responding appropriately to such risks in a timely manner.

The *Audit Committee* oversees the effectiveness of GIB KSA's internal controls systems by reviewing and evaluating the systems of internal controls and meets with Internal Audit, External Audit and management to assess the adequacy and effectiveness of the systems of internal controls and obtaining reasonable assurances from them on a periodic basis.

Pursuant to the above review, the Board has endorsed management's assessment of GIB KSA's internal controls systems.

Board of Directors Report (continued)

18. Ethical Standards and Code of Conduct

GIB KSA has a Board-approved Code of Conduct that contains rules on conduct, ethics and avoiding conflicts of interest, applicable to all the employees and Directors of GIB KSA. The Code of Conduct is designed to guide all employees and directors through best practices to fulfil their responsibilities and obligations towards GIB KSA's stakeholders (shareholders, clients, staff, regulators, suppliers, the public, and the host countries in which GIB KSA conducts business, etc.), in compliance with all applicable laws and regulations and is in line with the Code of Conduct issued by the SAMA for all financial services.

The Code addresses such issues as upholding the law and following best practices; acting responsibly, honestly, fairly and ethically; avoiding conflicts of interest; protecting GIB KSA property and data; protecting client-confidential information and safeguarding the information of others; complying with inside information rules and with the prohibition on insider trading; preventing money laundering and terrorism financing; rejecting bribery and corruption; avoiding compromising gifts; as well as speaking up and 'whistle blowing'.

All employees and directors of GIB KSA are reminded every year of their obligations under the Code of Conduct by means of an email from GIB KSA that includes a copy of the Code of Conduct (in English and Arabic), and everyone is required to sign an Acknowledgment and Declaration confirming that they have received and read the Code of Conduct and understand its requirements; have followed and will continue to follow these requirements; and agree that if they have any concern about any possible misconduct or breach of the Code of Conduct, they will raise the concern with the appropriate persons within GIB KSA as per the Code.

In addition, all employees of GIB KSA must sign an annual Declaration on outside employment and other activities, to ensure that no conflicts of interest exist. These Declarations are addressed to GIB KSA's Human Resources department. Similarly, all Directors and members of the Management Committee must complete and sign a similar annual Declaration, addressed to the Governance, Numeration & Remuneration Committee of the Board.

19. Corporate Social Responsibility (CSR) and Sustainability Initiatives

GIB KSA is deeply committed to supporting CSR initiatives which bring to life the goals and objectives of Saudi Arabia's Vision 2030.

GIB KSA supported programmes and activities in the following areas:

i. enhancing environmental and natural capital;
ii. promoting career development and education for youth and women;
iii. providing preventive healthcare;
iv. providing skills building and vocational training for underprivileged people; and
v. preserving and promoting sports and culture.

Key examples of such initiatives are the following:

i. GIB KSA donated SAR 2 million to the Saudi Health Ministry's Health Endowment Fund and SAR 1.2 million to the Ministry of Human Resources and Social Development Community Fund. This was allocated to groups most affected by Covid-19.
ii. In partnership with the SAMA, GIB KSA continues its five year financial support programme for Autism Center of Excellence in Riyadh. The Center is a major CSR initiative for Saudi Arabia which GIB KSA and other Saudi banks are supporting. In 2020, GIB KSA participated in the official inauguration of the Center along with the presence of their excellencies, Dr. Ahmed Alkholifey, Governor of SAMA and Ahmed Al-Rajhi, Minister of Human Resources and Social Development.
iii. GIB KSA signed a partnership agreement with the Alnahda Philanthropic Society for Women in Riyadh to collaborate on the development of women's empowerment in the Kingdom and, in support of their leadership of the Women 20 (W20), one of the official G20 Engagement Groups.
iv. The Jammaz Al-Suhaimi Future Executive Graduate Programme continues to provide a unique opportunity of a lifetime for its participants. In 2020, GIB KSA enrolled a new cohort of the graduates programme, which is designed to help feed the Bank's GCC talent pipeline to prepare them for future professional roles and duties within GIB KSA. The Jammaz Al-Suhaimi Scholarship was another additional programme created to provide financial support for individuals from less privileged backgrounds to acquire education and qualifications.
v. In support of women's empowerment and sport in Saudi Arabia, GIB KSA extended its endorsement to the Full name is Aramco Saudi Ladies International Golf Tournament presented by the Public Investment Fund, the first time any professional global sport for women has been hosted in the Kingdom. This initiative is an integral part of GIB KSA's overall CSR strategy.

20. Related Party Transactions

GIB KSA has a Board-approved related party and conflict of interest policy which governs the conflict of interest and related party transactions. GIB KSA's dealings with its related parties are conducted on an arms-length basis in respect of its exposure to and deposits received from them. If loans are extended to related parties, these are approved on the basis of authorities delegated by the Board to the CEO. If the loans exceed these authorities, then further approval from the Executive Committee or the Board is requested. GIB KSA will not deal with any of its Directors in a lending capacity unless permitted by Saudi Arabian law or regulation.

In the event of proposed dealings with companies associated with a GIB KSA Director, the proposals are (i) referred to the Board for approval with the abstention of the Director involved from voting or (ii) raised to the attention of the Board Risk Policy Committee and Board / Executive Committee if such approvals are within the credit limits of the CEO.

In the ordinary course of its activities, GIB KSA transacts business with related parties. Related party transactions are governed by limits set by the Banking Control Law and regulations issued by SAMA. GIB KSA also adheres with the required process (including by way of authorisation from the ordinary general assembly) for related party transactions as per Article 71 of the Saudi Companies Law to seek shareholder authorisation for such transactions.

Board of Directors Report (continued)

21. Board of Directors and Executive Management

Composition of the Board of Directors and Attendance at Board Meetings

Due to travel restrictions and health precautionary measures due to the Covid-19 pandemic, all meetings scheduled from March 2020 onwards throughout the year were held virtually through means of electronic video conference. Despite the foregoing, the Board was able to perform its duties and responsibilities effectively without any disruption.

Name	Function	Membership Type	10 February 2020	14 April 2020	21 July 2020	22 October 2020	2 December 2020	24 December 2020
Mr. Abdulla bin Mohammed Al Zamil	Chairman	Non-Executive	✓	✓	✓	✓	✓	✓
Dr. Abdullah bin Hassan Alabdulgader	Vice Chairman	Non-Executive	✓	✓	✓	✓	✓	✓
Mr. Abdulaziz bin Abdulrahman Al-Helaissi	Member	Executive	✓	✓	✓	✓	✓	✓
Dr. Najem bin Abdulla Al Zaid	Member	Non-Executive	✓	✓	✓	✓	✓	✓
Mr. Sultan bin Abdul Malek Al Sheikh	Member	Non-Executive	✓	✓	✓	✓	✓	✓
Mr. Bander bin Abdulrahman bin Mogren	Member	Non-Executive	✓	✓	✓	✓	✓	✓
Mr. Rajeev Kakar	Member	Non-Executive	✓	✓	✓	✓	✓	✓
Mr. Muhannad Al Azzawi	Member	Non-Executive	✓	✓	✓	✓	✓	✓
Mr. Riyad Al Dughaither (term ended on 2 December 2020 due to resignation)	Member	Non-Executive	✓	✓	✓	✓	✓	✓
Mrs. Anju Patwardhan	Member	Non-Executive	✓	✓	✓	✓	✓	✓
Mr. Selman Al Fares (appointed on 2 December 2020)	Member	Non-Executive						✓

Board Committee Attendance January - December 2020 Meetings

Board Committee members	Executive Committee	Audit Committee	Governance, Nomination Remuneration Committee	Board Risk Policy Committee
Dr. Abdullah bin Hassan Alabdulgader			3(3)	
Mr. Abdulla bin Mohammed Al Zamil	6(6)			
Mr. Abdulaziz bin Abdulrahman Al-Helaissi	6(6)			
Dr. Najem bin Abdulla Al Zaid				4(4)
Mr. Sultan bin Abdul Malek Al Sheikh	6(6)	6(6)		
Mr. Bander bin Abdulrahman bin Mogren			3(3)	
Mr. Muhannad Al Azzawi	6(6)		3(3)	
Mrs. Anju Patwardhan	6(6)			4(4)
Mr. Riyad Al Dughaither		6(6)		4(4)
Mr. Rajeev Kakar				4(4)
Mr. Hassan Al Mulla		6(6)	3(3)	
Dr. Abdulla Al Shwer		6(6)		
Mr. Abdulrahman Al Sakran		6(6)		

* Figures in (brackets) indicate the maximum number of meetings during the year.

* Mr. Selman Al Fares was appointed on 2 December 2020 to the Board Risk Policy Committee and there were no meetings held in that month.

Board of Directors Report (continued)

Board Committees Meetings During 2020

Type of meeting	Meeting dates
Executive Committee	1. 10 February 2020 2. 29 March 2020 3. 14 April 2020 4. 21 July 2020 5. 21 October 2020 6. 2 December 2020
Audit Committee	1. 6 February 2020 2. 13 April 2020 3. 1 June 2020 4. 20 July 2020 5. 21 October 2020 6. 1 December 2020
Board Risk Policy Committee	1. 9 February 2020 2. 13 April 2020 3. 20 July 2020 4. 21 October 2020
Governance, Nomination and Remuneration Committee	1. 9 February 2020 2. 19 March 2020 3. 1 December 2020

Composition of the Executive Management

Name	Current Role
Mr. Abdulaziz Al-Helaissi	Chief Executive Officer
Mushari Al Otaibi	Chief Operating Officer
Khalid Abbas	Group Head of Wholesale Banking
Sara Abdulhadi	Chief Investment & Treasury Officer
Naif Albaz	Head of Risk Management
Yasser AlAnssari	Head of Compliance & Anti-Financial Crime
Nawaf Kably	Chief Human Resource Officer
Marwan AlAbiad	Chief Financial Officer
Ali Al-Akbari	Head of Operations
Ali Abdulhadi	Head of Internal Audit Department
Moied AlHussain	Head of Legal Affairs
Hussein Buhaliqah	Head of Information Technology
Mohammed AlAjmi	Head of Retail Banking Department

Board of Directors Report (continued)

Remuneration of the Directors and Executive Management

The compensation that the non-executive members of the Board of GIB KSA in their capacity as Directors are entitled to for the year ended 31 December 2020 was SAR 4,125,000.

GIB KSA's policy to determine the compensation paid to members of the Board of Directors of GIB KSA or members from outside the Board is determined in accordance with the frameworks issued by the supervisory authorities and governed by prime principles of governance of banks operating in Saudi Arabia and the compensation regulations issued by SAMA, the provisions of the Companies Law, GIB KSA's bylaws, GIB KSA's Corporate Governance Manual and the Board Remuneration Policy.

Directors and members from outside the Board shall be entitled to an annual remuneration approved by the Shareholders at the Annual General Assembly Meeting, which shall be paid on a pro-rata basis in line with their attendance to Board meetings throughout a given year. Any payments to Executive Members will be addressed in their relevant contracts with GIB KSA.

During 2020, none of the Board or sub-committee members have assumed any work in a technical or advisory role, and therefore they did not obtain any consideration or special benefits in this respect.

The table below shows details of remuneration that the Non-Executive Board / Board Committee Members is entitled to in 2020.

Annual Remuneration for 2020 for Non-Executive Board / Board Committee Members *(in SAR)*

Member	Board & Committee Sitting Fees	Annual Remuneration	Total
Mr. Abdulla Al Zamil	43,000	457,000	500,000
Dr Abdulla Alabdulgader	34,000	420,000	454,000
Dr. Najem Al Zaid	37,000	420,000	457,000
Mr. Rajeev Kakar	37,000	400,000	437,000
Mr. Riyad Al Dughaither	55,000	400,000	455,000
Mr. Muhannad Al Azzawi	52,000	400,000	452,000
Mr. Hassan Al-Mulla	27,000	120,000	147,000
Mr. Abdulrahman Alsakran	18,000	120,000	138,000
Dr. Abdulla Alshwer	18,000	120,000	138,000
Mr. Bander Bin Mogren	34,000	400,000	434,000[1]
Mr. Sultan Al Sheikh	61,000	420,000	481,000[2]
Mrs. Anju Patwardhan	30,000 (*Committee*) 25,000 *(Board)*[3]	400,000[4]	455,000
Total			**4,548,000**

The remuneration of the senior executives (requiring SAMA no objection) for the year ended 31 December 2020 was SAR 15,098,000 (consisting of SAR 14,990,000 as fixed compensation and SAR 108,000 as variable compensation).

1 Payments disbursed directly to the Public Investment Fund
2 Payments disbursed directly to the Public Investment Fund
3 Payments disbursed directly to the Public Investment Fund
4 Payments disbursed directly to the Public Investment Fund

Board of Directors Report (continued)

22. Board Committees

The Committees of the Board derive their authorities and powers from the Board. Details of Committees' membership are listed in the tables below:

BOARD COMMITTEES' MEMBERSHIP

Board committees	Member name	Member position
Executive Committee	Mr. Abdulla bin Mohammed Al Zamil	Chairman
	Mr. Abdulaziz bin Abdulrahman Al-Helaissi	Member
	Mr. Sultan bin Abdul Malek Al Sheikh	Member
	Mrs. Anju Patwardhan	Member
	Mr. Muhannad Al Azzawi	Member
Audit Committee	Mr. Sultan bin Abdul Malek Al Sheikh	Chairman
	Mr. Riyad Al Dughaither	Member
	Dr. Abdulla Al Shwer	Member
	Mr. Abdulrahman Al Sakran	Member
	Mr. Hassan Al Mulla	Member
Governance, Nomination & Remuneration Committee	Dr. Abdullah bin Hassan Alabdulgader	Chairman
	Mr. Bander bin Abdulrahman bin Mogren	Member
	Mr. Muhannad Al Azzawi	Member
	Mr. Hassan Al Mulla	Member
Board Risk Policy Committee	Dr. Najem bin Abdulla Al Zaid	Chairman
	Mr. Riyad Al Dughaither	Member
	Mr. Rajeev Kakar	Member
	Mrs. Anju Patwardhan	Member
	Mr. Selman Al Fares	Member

* Mr. Riyad Dughaither is no longer a member of the Board Risk Policy Committee and the Audit Committee. Mr. Selman Al Fares is a member of the Board Risk Policy Committee as of 2 December 2020.

Executive Committee

The Executive Committee is authorised to formulate executive policy of GIB KSA and supervise the implementation of the executive policy, assist the Board by reviewing, evaluating and making recommendations to the Board with regard to key strategic issues such as mergers, acquisitions or material changes in key strategic objectives or direction, approve credit limits that exceed the authority of the CEO subject to the limits approved by the Board such other responsibilities specifically mandated to it by resolution of the Board.

Audit Committee

The Audit Committee's responsibilities include, without limitation, assisting the Board in providing oversight of the integrity of GIB KSA's financial statements; GIB KSA's compliance with legal and regulatory requirements; GIB KSA's compliance with the rules of good corporate governance; the external auditors' qualifications and independence; performance of GIB KSA's internal audit function; independent audits and regulatory inspections; the review of GIB KSA's systems of internal controls regarding finance, accounting, legal, compliance and ethics that management and the Board have established; and the review of GIB KSA's auditing, accounting and financial reporting policies and processes. The CEO shall not be a member of the Audit Committee.

Governance, Nomination and Remuneration Committee

The Governance, Nomination and Remuneration Committee's role is to act as the agent of the Board in ensuring good corporate governance to govern and outline the procedures and guidelines in relation to compliance with the corporate governance principles applicable to GIB KSA, formulation of GIB KSA's executive and staff remuneration policy as well as establishing processes for the identification of, and recommending, suitable candidates for senior management, establishing processes for the review of the performance of the individual directors and the Board as a whole, establishing processes for the review of the performance of senior management, and recommending to the Board the appropriate skill criteria and any applicable regulatory requirements to be taken into account in the shareholders' assessment of new candidates for directorships.

CONTENTS

Board of Directors Report (continued)

Board Risk Policy Committee

The primary objective of the committee is to assist the Board in fulfilling its oversight responsibilities in respect of setting GIB KSA's overall risk appetite, parameters and limits within which it conducts its activities.

23. Directors and Senior Executive Interest

- Board Members

All the members of the Board of Directors were duly appointed, for the term of 5 years, during the Constituent General Meeting held on 28 February 2019.

The Board of Directors, including any persons directly related to them, neither hold any shares nor have any other interest in the company.

- Senior Management

The Senior Management team is responsible for the day-to-day management of GIB KSA entrusted to it by the Board. It is headed by the CEO, who is assisted by the Chief Financial Officer, Chief Risk Officer, Chief Operating Officer, Wholesale Banking Head, Retail Banking Head, Chief Investment and Treasury Officer, Chief Information Officer and Chief Human Resources Officer.

24. Shariah Supervisory Board (SSB)

The Shariah Supervisory Board (SSB) is a separate and independent body which is made of esteemed Shariah scholars, appointed by the Board of Directors. The SSB reports to the Board of Directors and consists of three members. The SSB is the highest authority in making the final decision on matters related to the Shariah in GIB KSA's course of Shariah compliant banking operations.

Responsibilities of the SSB

The responsibilities of the SSB are as follows:

A. undertake all Shariah supervision of Islamic businesses of GIB KSA across all segments (Retail, Wholesale and Treasury), activities, products, services, contracts, documents and distribution of profits between account investment holders and shareholders;

B. issue Shariah resolutions of all Shariah Banking products and activities as needed;

C. determine Shariah parameters necessary for the GIB KSA activities, and the GIB KSA compliance with Islamic Shariah within the framework of the rules, principles, and standards set by the SAMA to ascertain compliance of the Bank with Islamic Shariah; and

D. assist the Board and the Management or any related party thereof in overseeing the enforcement and implementation of Shariah Board's resolutions.

Independence of the SSB

The SSB acknowledges that it has carried out all of its duties independently and with the support and cooperation of the senior management and the Board of GB. The SSB received the required assistance to access all documents and data, and to discuss all amendments and Shariah requirements.

SSB Meetings

Two SSB meetings were held in 2020 as follows:

SSB members	June 11, 2020	October 12, 2020
1. Dr. Mohamed Ali Elgari	✓	✓
2. Sheikh Nedham Yaqoobi	✓	✓
3. Sheikh Rashed Ibrahim Alghonaim	✓	X

Remuneration*

Fixed remuneration	SAR 270,312.41
Allowances for attending committee meetings	SAR 18,750.00
Total	SAR 289,062.41

*These figures do not include VAT.

25. Applicable Laws

GIB KSA adheres to all the provisions of the Banking Control Law and all other applicable laws, rules and regulations.

26. Declarations

The Board of Directors hereby confirms (with reference to year ending 31 December 2020) that:

- Proper books of accounts have been maintained.
- GIB KSA prepares its financial statements in accordance with International Financial Reporting Standard.
- The Internal Audit and external reviewers' reports have highlighted the opportunities for enhancement in the internal controls of GIB KSA which were either addressed or are in the process of being addressed by the management. Internal Audit tracks these recommendations and provides an update on the implementation to senior management and the Audit Committee on periodic basis.
- In accordance with the relevant rules and regulations and the Conflicts of Interest and Related Party Transaction Policy (the "Policy") which covers Related Party Transactions, GIB KSA has disclosed in its audited financial statements the related party contracts with entities in which a Director has a material interest and those requiring the approval of the shareholders will be submitted at the annual general meeting in line with the Policy. The Directors involved abstained from discussions and voting in relation to these contracts.
- There is no doubt over GIB KSA's ability to continue to operate accordingly as a going concern.
- The Board has endorsed management's assessment of GIB KSA's internal controls systems.
- After the review by the Audit Committee, the Board endorsed the consolidated financial statements for the year 2020 on 16 February 2021 as recommended by the Committee.
- GIB KSA has implemented all provisions of the Principles of Corporate Governance issued by SAMA.

Internal Controls Report

Senior management is responsible for establishing, maintaining and monitoring GIB KSA's internal controls systems to ensure the effective functioning of GIB KSA. The internal controls systems comprise the establishment and implementation of policies, procedures, processes, systems and a risk framework across all functions of GIB KSA, which are approved by the Board of Directors.

The Board of Directors, supported by the Board Risk Policy Committee and the Audit Committee, is responsible for ensuring that the internal systems and controls framework are effective for GIB KSA's business and associated risks.

The Board Risk Policy Committee sets the organisation's risk appetite and also seeks to identify the principal risks facing the organisation, together with the management. It has oversight in respect of GIB KSA's overall risk appetite, parameters and limits within which GIB KSA conducts its activities to seek assurance on an ongoing basis that the management is responding appropriately to such risks in a timely manner.

To achieve this, the Board Risk Policy Committee ensures that GIB KSA has an effective enterprise-wide risk management framework in place and that all risk controls operating throughout GIB KSA are in accordance with regulatory requirements and best practice standards for management of risks in banks. The *Enterprise Risk Management (ERM)* Framework based approach followed by GIB KSA takes a comprehensive view of all risk families on a proactive basis – including Credit risk, Market risk, Operational risk, Interest rate risk, Liquidity risk, and non-financial risks such as strategic risk, information and cyber security risks, business model risk, reputational risk, concentration risk, etc. This enables management to effectively deal with uncertainty, and any associated risk and opportunity, enhancing the capacity to build stakeholder value. This includes aligning GIB KSA's risk appetite and strategies, ensuring well thought out risk-response decisions, helps reduce the frequency and severity of operational losses, identifies and helps proactive management of multiple and cross-enterprise risks, prepares GIB KSA to proactively realise the opportunities arisen, and improves the capital deployment effectiveness.

To ensure the effectiveness of the set Enterprise Risk Management Framework, the Board Risk Policy Committee relies on adequate line functions for independent monitoring and assurance functions within GIB KSA, using a *'Three Lines of Defence'* Risk Management model to ensure that control roles are independent and responsibilities are segregated –

Internal Controls Report (continued)

with the *'First Line of Defence'* owning and managing risk as direct line functions, the *'Second Line of Defence'* overseeing through specialists in risk management, financial control, and compliance functions, and the *'Third Line of Defence'* providing independent assurance through specialist functions like Internal Audit and External Statutory Audit teams. GIB KSA follows a *Forward-looking Stress Testing Framework* across all risk families to identify possible events or changes in market conditions that could adversely impact GIB KSA, and this helps in identifying action plans for timely and adequate risk mitigating actions.

The *Audit Committee* oversees the effectiveness of GIB KSA's internal controls systems by reviewing and evaluating the systems of internal controls and meets with Internal Audit, External Audit and management to assess the adequacy and effectiveness of the systems of internal controls and obtaining reasonable assurances from them on a periodic basis. The Audit Committee periodically receives reports as to the existence of any significant deficiency or material weakness in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect GIB KSA's ability to record, process, summarise and report financial information and as to the existence of any fraud, whether or not material, that involves management or other employees who have a significant role in GIB KSA's internal controls over financial reporting. Further, the Audit Committee Chairman provides updates to the Board on the key discussions and decisions considered by the Audit Committee.

The *Internal Audit Unit* reports functionally to the Audit Committee and administratively to the Chief Executive Officer, making it independent of management, with the ability to make objective judgements, and having the authority to conduct its work across the whole organisation without constraint. Internal Audit is properly and adequately resourced with a team of professionals with appropriate knowledge, skills, and experience. It follows a risk-based approach in developing and executing the internal audit plan in order to support the allocation of audit resources to those areas that represent significant risks to be conducted on a more frequent basis and assess the adequacy and effectiveness of GIB KSA's systems of internal controls and to provide a reasonable assurance to the Audit Committee.

The process of *Internal Controls* is facilitated through a set of separate functions, which report directly to senior management. These functions include risk management, financial control, and compliance. This multi-faceted approach aids the effective management of risk by identifying, measuring and monitoring controls from a variety of perspectives.

GIB KSA maintains a disciplined approach to risk-taking by upholding a comprehensive set of risk management policies, processes and limits, employing qualified people with the appropriate skills, investing in technology and training, and actively promoting a culture of sound risk management at all levels.

In relation to *Operational risk*, GIB KSA has implemented an operational risk management framework which includes tools such as risk and control self-assessment, key risk indicators and the escalation of operational risk events and remedial measures to prevent recurrence. These tools provide the business areas the opportunity to reassess the control effectiveness within their business processes. Any control deficiencies identified as a result of utilisation of these tools by the Business Units are reported ultimately to the Board Risk Policy Committee. Any key issues requiring the attention of senior management are escalated to GIB KSA's Management Committee.

The *Information Security function* ensures the adequate protection of GIB KSA's and its customers' information by securing network and security infrastructure from internal and external threats, by the implementation of "Defence in Depth" approach, i.e., layered security controls. The overall information security management system of GIB KSA is designed in-line with industry standards and best practices and comprises of an integrated model of people, process and technologies, including 24/7 security operation centre, cyber security risk management, vulnerability and incident management processes, periodic penetration test, threat intelligence, brand protection services and preventive & detective end point and perimeter security solutions. GIB KSA's *Compliance and Anti-money laundering function* performs its functions and duties through a continuous process of compliance risk assessment and ensures compliance with all applicable regulatory requirements. The Compliance Unit has a direct reporting line to the Audit Committee.

GIB KSA endeavours to inculcate a strong appreciation for risk and internal controls through periodic *training programmes* for its employees and to increase their awareness of the importance of risk assessment, and their responsibility maintaining the system of internal controls.

Whilst the risk of failures in internal controls cannot be entirely eliminated, *Management* mitigates and manages such risk by maintaining the appropriate infrastructure, controls, systems, procedures and ensuring that trained and competent people are employed to protect the interest of GIB KSA and its stakeholders.

Opinion on Internal Controls by the Audit Committee

For the period ended 31 December 2020, and pursuant to Article 104 of the Saudi Companies Law (2015), which requires the Audit Committee to report its opinion on adequacy of the internal controls framework in GIB KSA, the Audit Committee was made aware of the opportunities for enhancement in the internal controls of GIB KSA. These recommendations were addressed, or are in the process of being addressed, by management. Furthermore, these recommendations are tracked and validated independently by Internal Audit and an update on the implementation is provided to the Audit Committee on periodic basis.

Board of Directors biographies

Eng. Abdulla bin Mohammed Al Zamil
Elected Chairman on 28th February 2019
Director since 2019

Mr. Abdulla bin Mohammed Al Zamil is the Chief Executive Officer of Zamil Industrial Investment Company, having previously served as Chief Operating Officer. Prior to this, he was the Senior Vice President at Zamil Air Conditioners, where he started his career as an industrial engineer. He is also the Chairman of Saudi Global Ports, Zamil Air Conditioners Holding Co., Zamil Steel Holding Co., Gulf Insulation Group and GIB Capital. His board memberships include Ranco & Zamil Concrete Industries, Zamil Offshore Services Company and GIB BSC. Board memberships of government entities include the Eastern Province Council. Mr. Al Zamil holds an MBA (with a concentration in Finance) from King Fahd University of Petroleum and Minerals, Saudi Arabia, and a BSc in Industrial Engineering from the University of Washington, USA. He has 34 years' professional experience.

Mr. Abdulaziz bin Abdulrahman Al-Helaissi
Director since 2019
Chief Executive Officer
Gulf International Bank-Saudi Arabia

Mr. Abdulaziz bin Abdulrahman Al-Helaissi is the Group Chief Executive Officer and a board member of Gulf International Bank B.S.C.

Prior to joining GIB in February 2016, Mr. Al-Helaissi was the Deputy Governor for Supervision at the Saudi Arabian Monetary Authority (SAMA), having started there in May 2013. At SAMA, his responsibilities included the oversight of the Banking and Insurance sectors as well as finance company regulations (mortgage, leasing, and other non-bank finance institutions). He was additionally responsible for consumer protection. Prior to SAMA, Mr. Al-Helaissi was Senior Country Officer and Managing Director, Saudi Arabia for JPMorgan Chase as well as Head of Global Corporate Banking for the Middle East and North Africa. Earlier in his career, he was Saudi British Bank's (affiliate of HSBC), Central Province Area General Manager, covering all key lines of business, including corporate and consumer banking. He has also served on a number of boards, including the Saudi Stock Exchange (Tadawul).

Mr. Al-Helaissi holds a BA in Economics from the University of Texas in Austin, USA and has 31 years of banking and regulatory experience primarily in Saudi Arabia.

Dr. Abdullah bin Hassan Alabdulgader
Vice Chairman since 2019
Director since 2019

Dr. Alabdulqader is consulting and serving as a professional non-executive director (NED) in banking, investment, telecommunication, technology, and transportation. He brings extensive knowledge and experience in corporate governance, auditing, remuneration, capital markets regulations, and risk management. Currently, he is Chairman of GIB BSC and a NED at BNY Mellon Saudi, Saudi Arabian Investment Company (Sanabil), Saudi Arabian Railroads Company (SAR), Al Faisaliah Group, STC Bahrain, and Saudi Public Pension Agency. He chairs the Regulatory and Policy Oversight Committee at the Saudi Stock Exchange (Tadawul).

Dr. Alabdulqader was Professor of Business Administration at King Fahd University of Petroleum and Minerals. In 2004, he moved to the newly established Saudi capital market regulator (Capital Market Authority). As a founding Commissioner, he contributed to the development of the Kingdom's capital market and led the launch of the Saudi corporate governance code. He continued promoting corporate governance in the region after leaving CMA. He was the founding Executive Director of the GCC Board Directors Institute, a non-profit organisation that provides board effectiveness training and assessment, Dr. Alabdulqader holds a PhD in Business Administration from University of Colorado, USA, and an MBA and BSc in Business Administration from King Fahd University of Petroleum and Minerals. He has 36 years' professional experience.

Board of Directors biographies (continued)

Mr. Rajeev Kakar
Director since 2019

Mr. Rajeev Kakar is a board member of Eurobank Ergasias SA (Greece), Commercial International Bank (Egypt), UTI Asset Management Company (India), Satin Credit Care Networks (India), GIB BSC and is a Global Advisory Board member at the University of Chicago's Booth School of Business.

From 2006-2018, he was the Global Co-Founder of Fullerton Financial Holdings, a wholly owned subsidiary of Temasek Holdings, Singapore; and also served concurrently as the Global CEO of Consumer Banking, Regional CEO for Central Europe, Middle East and Africa; and as the founder, Managing Director and CEO of Dunia Finance, Fullerton's UAE subsidiary. Prior to that, he was at Citibank for 20 years, finishing as the Regional CEO & Division Executive - Turkey, Middle East and Africa.

Mr. Kakar holds an MBA, Finance & Marketing from the Indian Institute of Management, and a Bachelor of Technology, Mechanical Engineering from the Indian Institute of Technology. He has 34 years' professional experience.

Mr. Sultan bin Abdul Malek Al Sheikh
Director since 2019

Mr. Sultan bin Abdul Malek Al Sheikh is a Director at the Local Holdings Investment Division at the Public Investment Fund of Saudi Arabia (PIF). He is also a board member of the Helicopter Company, Tahakom Investment Company, Saudi Company for Exchanging Digital Information (Tabadul), Al Marai Company, GIB BSC and Saudi Fisheries Company, as well as being an Executive Committee member of Saudi Telecom Company. Prior to joining PIF, Mr. Al Sheikh held key positions in reputable financial institutions. He served as an Associate and Vice President of Investment Banking at Saudi Fransi Capital. Mr. Al Sheikh also worked as an Officer in the Securities Listing Department at the Saudi Capital Market Authority (CMA) and as a Relationship Manager at the National Commercial Bank (NCB) of Saudi Arabia.

Mr. Al Sheikh holds a MSc in Finance from the George Washington University, USA, and a BSc in Finance from King Fahd University of Petroleum and Minerals, Saudi Arabia. He has 17 years' professional experience.

Mr. Selman Fares M. Al Fares
Director since December 2020

Mr. Selman Fares M. Al Fares is the Chief Executive Officer of AlMajd AlArabiyah Company for Asset and Property Management of a Hospitality Portfolio in Makkah, Madinah and Jeddah. Prior to this, he was Chief Executive Officer of Nessel Holding Company, and held several senior positions in Al Faisaliah Group, Gulf Stars Group for Network Technology and Technology Solutions, and Riyad Bank. Earlier in his career, he held numerous positions at Samba Financial Group, most recently Senior Country Operation Officer. He is the Vice Chairman of the Technical Investments Company, and a board member of GOSI, Hassana Investment Company and Falcom Holding. He is also a member of the Investment Committee-Bupa Arabia for Cooperative Insurance. Mr. Al Fares holds a degree in Computer Information Systems from the Arizona State University, USA. He has 39 years' professional experience.

Mr. Bander bin Abdulrahman bin Mogren
Director since 2019

Mr. Bander bin Abdulrahman bin Mogren is the Chief Operating Officer at the Public Investment Fund of Saudi Arabia (PIF). He is also a member of the PIF Nomination Committee, a board member of the Saudi Development and Investment Company and the Chairman of its Remuneration Committee, and a board member of the Saudi Real Estate Company and a member of its Nomination and Remuneration Committee. Mr. Mogren is a board member of King Abdullah Financial District and the Chairman of its Nomination Committee, a board member of Jassara, and a member of the Nomination and Remuneration committees of Tadawul, Sanabil Investments, Noon and the National Center for Privatization, Neom, Qiddiya and Central Riyadh Development Company.

Previously, he was Managing Director of Human Resources and Corporate Services at NCB Capital, and Head of Human Resources at Jadwa Investment; as well as having held managerial positions at STC. Mr. Mogren holds a BA in Human Resources and Business Administration from Eastern Washington University, USA. He has 19 years' professional experience.

Mrs. Anju Patwardhan
Director since 2019

Ms. Anju Patwardhan is a globally experienced board director, banker, and Fintech venture investor. She has lived and worked in Singapore, San Francisco, and India.

She was the Managing Director at CreditEase Fintech VC Fund of USD 500 million, based in Silicon Valley, from 2016-20. She continues to be an advisor to the Fund and represents the Fund on the boards of various portfolio companies in the US and the UK. Before this, Anju worked in banking for over two decades, based in Singapore, with Citibank and Standard Chartered Bank (SCB) in global leadership roles including Global Chief Innovation Officer, Chief Risk Officer, and Chief Operating Officer. She was a member of SCB's global executive leadership team, a member of the Global Technology & Operations Management Group, and a member of the Global Risk Management Group.

Ms. Patwardhan has served on boards of banks and regulated entities in the US, the UK, Europe, Singapore, Saudi Arabia, and Thailand. She is on the Global Advisory Council of Stanford University's Distinguished Careers Institute (DCI). She has been guest faculty for a FinTech course for MBA students at Stanford GSB since 2017. Her numerous academic accolades include Fulbright Fellow and Visiting Scholar from ASEAN, and Fellow of the Distinguished Careers Institute, at Stanford University, California, USA. She was also appointed Distinguished Fellow of the Singapore Institute of Banking & Finance (Risk Management); Innovation Fellow at the National University of Singapore; and was on the e-Residency advisory board of the Government of Estonia. Ms. Patwardhan has been a Member of the World Economic Forum's Steering Committee on 'Disruptive Innovation in Financial Services' since 2015 and was a Member of the WEF's Global Future Council on Blockchain from 2016 to 2018.

Recognised globally as a FinTech thought leader and influencer, Ms. Patwardhan is regularly invited to speak at leading annual international conferences and events, including the World Economic Forum, G20 SME Finance Forum, World Bank/IMF, Asian Development Bank, Milken Institute, and Federal Reserve Bank of San Francisco.

Ms. Patwardhan is an alumna of the Indian Institute of Technology and the Indian Institute of Management. She has nearly 30 years of professional experience.

Board of Directors biographies (continued)

Eng. Muhannad bin Kusai bin Hasan Al Azzawi
Director since 2019

Eng. Muhannad bin Kusai bin Hasan Al Azzawi is the Chief Executive Officer (CEO) of Saudi Industrial Construction & Engineering Projects Company (SICEP), Chairman and CEO of Saudi Training & Technology Company (ST&T) Chairman and CEO of Al Wusata Development Company. Eng. Al Azzawi is Chairman of Merrill Lynch Kingdom of Saudi Arabia, and Chairman of the Board's Remuneration and Nomination Committee; board member of Taiba Investments, and member of the Investment Committee and Remuneration and Nomination Committee; and board member of the Saudi Arabian Golf Federation, and Chairman of the Investment Committee and board member of the General Authority of Civil Aviation, and member of the Executive Committee.

He was Vice Chairman of the National Contractors' Committee, Council of Saudi Chambers; Vice Chairman of the Contractors' Committee, Riyadh Chamber of Commerce and Industry; and a member of the Joint Saudi-French Business Council. In addition, he represents the private sector on several Government committees concerned with the contracting sector in Saudi Arabia. He has been a member of the Young Presidents' Organisation since 2000.

Eng. Al Azzawi holds a BSc degree in Computer Engineering from King Saud University, Saudi Arabia. He has 26 years' professional experience.

Dr. Najem bin Abdulla Al Zaid
Director since 2019

Dr. Najem bin Abdulla Al Zaid is the Founding Partner of ZS&R law firm in association with Hogan Lovells. He is the Vice Chairman of the Saudi Electricity Company and a member of the Tadawul Regulatory Policies and Oversight Committee. Further, he is a Governance Committee member at Saudi International Petrochemical Company, a Governance Committee member at Arabian Centres Company and a Board and Board Risk Committee member and Governance, Nomination and Remuneration Committee member at GIB BSC. He also served as the Vice Chairman of The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company and as a board member of the National Center for Privatization and PPP. Prior to founding ZS&R, Dr. Al Zaid was the Chief Governance and Legal Officer at Al Rajhi Bank Group and had previously served as the Commissioner and a board member of the Saudi Capital Market Authority, appointed by royal decree. He also worked as Counsel at the Islamic Development Bank Group.

Dr. Al Zaid holds a Doctor of Juridical Science from the George Washington University Law School, USA, a Master of Laws from the University of Minnesota Law School, USA, a High Diploma in Law from the Institute of Public Administration, Saudi Arabia and a BA in Islamic Jurisprudence and Law from Umm AlQura University, Saudi Arabia. Further, he successfully completed the Harvard Law School Leadership Program and the London Business School Management Development Program. He has 26 years' professional experience.

Mr. Riyad bin Mustafa Al-Dughaither
Director from 2019 until December 2020

Mr. Riyad bin Mustafa Al-Dughaither is the Founder and Principal Consultant of Bahrain-based Intelligentsia Consultancy, which advises financial institutions on the formulation and implementation of asset, risk and investment management strategies. Prior to this, he was Group Chief Risk Officer at Bank ABC, Bahrain, where he was responsible for risk management oversight of the Bank's operations spanning 12 countries.

Before this, Mr. Al-Dughaither spent 18 years with Riyad Bank, Saudi Arabia, where he held a number of senior executive positions including Chief Risk Officer, AGM - International Banking, and Executive Manager - Houston Agency, USA. He was instrumental in establishing an umbrella of leading mutual funds, and also led teams in closing a number of multi-million-dollar syndicated loan transactions in Saudi Arabia.

Mr. Al-Dughaither's former international Board memberships include Saudi Swiss Bank, Switzerland; Riyad Bank Europe, UK; Bank ABC Algeria and Bank ABC Tunisia; and Arab Cooperation Investment Company, Jordan. In Saudi Arabia, he was a board member of Saudi Real Estate Company, Saudi Hotel Services Company, Saudi Share Registration Company, Saudi Energy Services Company, and Arabian Drilling Company. Mr. Al-Dughaither is a former member of the Institute of International Finance's Steering Committee on Regulatory Capital (Washington, USA); and is regularly invited to speak at regional and international conferences on topics including risk management and governance in banking.

A CFA Charter holder and Member of the CFA Society Bahrain, Mr. Al-Dughaither holds a BSc in Civil Engineering and an MBA (with Honors) from King Fahd University of Petroleum and Minerals, Saudi Arabia. He has 32 years' professional experience.

Senior Executive Management

Abdulaziz Al-Helaissi
Chief Executive Officer and Board Member,
Chairman – Gulf International Bank (UK) Limited

Abdulaziz Al-Helaissi has 31 years' banking and regulatory experience and holds BA in Economics from the University of Texas in Austin, USA. His various board memberships have included Tadawul (Saudi Stock Exchange).

Khaled Abbas
Wholesale Banking Head

Khaled Abbas has more than 24 years' regional banking experience and holds a BSc in Business Studies from Lebanese American University, Beirut, Lebanon and has obtained executive education degrees from both Darden Business School at the University of Virginia, USA and INSEAD, France.

Mohammed AlAjmi
Head of Retail Banking

Mohammed has over 20 years of experience in Saudi Financial and Banking Industry and holds a Graduate of Law degree from King Saud University, Riyadh.

Mushari Al Otaibi
Chief Operating Officer

Mushari Al Otaibi has over 29 years' experience in Back Office Operations, Human Resources, Retail Banking and Wealth Management. Mushari attended the High Performers Leadership Programme at INSEAD, France, and the Finance for Non-Finance Executives Programme at London Business School in UK.

Sara Abdulhadi
Chief Investment and Treasury Officer

Sara Abdulhadi has more than 17 years of experience in global markets activities and strategic planning with a background in investments, derivative and FX trading; along with liquidity and funding management and holds an MSc in Investment Management from Cass Business School, City University, London and a BSc in Accounting from King Saud University, Riyadh.

Ali Abdulhadi
Chief Auditor

Ali Abdulhadi has more than 29 years audit experience in the region and holds a Bachelor of Accounting from King Abdulaziz University, Jeddah and CME-1 and CMA charter.

Naif Al Baz
Chief Risk Officer

Naif Al Baz has 22 years of regional banking and financial institution experience and is a Board Member at Bayan Credit Bureau and ISPC. He holds a BSc in Finance from King Fahd University of Petroleum and Minerals and an MBA from King Saud University. Naif also studied leadership at INSEAD and holds an International Executive Doctorate degree from Cranfield University, UK.

Senior Executive Management (continued)

Nawaf Kably
Chief Human Resources Officer

Nawaf Kably has more than 24 years of experience in human resources in global organisations. He is a member of the Chartered Institute of Personnel and Development and holds a Post Graduate degree from the University of Leicester, United Kingdom, specialising in Human Resources Development and Performance Management.

Vikas Sethi
Acting Chief Digital Officer

Vikas Sethi has 25 years of global experience in leveraging technology to deliver business outcomes in Financial Services, Consulting, Banking and Cards industries across multiple geographies. Vikas holds a Bachelor's degree in Engineering from the National Institute of Technology Surathkal in India and an MBA from the Ohio State University in the USA.

Moied AlHussain
Head of Legal

Moied AlHussain has more than 11 years of experience in banks and investment companies. He holds LLM from La Trobe University, Melbourne, Australia and a BSc in Islamic Law from the Imam Mohammad Ibn Saud Islamic University, Riyadh.

Rima Bhatia
Chief Economist and Head of Strategy

Rima Bhatia has 29 years' experience of forward-looking analysis on economic and financial developments, as well as leading the Bank's strategy function. She holds an MBA in Finance and Economics and a BSc in Business Administration from the University of Bahrain, Kingdom of Bahrain and attended an Executive Program at Harvard University, Boston, USA.

Hussein Buhaliqah
Head of Information Technology

Hussein Buhaliqah has more than 18 years of experience in Information Technology including IT leadership and strategy. He has a BSc in computer science from the Applied Science University, Jordan, as well as executive education in leadership and certification in project management.

Ali Al-Abkari
Head of Operations

Ali Al-Abkari has more than 29 years of experience in the financial services industry across Operations and Processing including Cash Management, Wholesale Operations, Financial Analysis and Corporate Credit Administration. He holds a BSc in the Economics of Banking and Finance from the University of Bahrain.

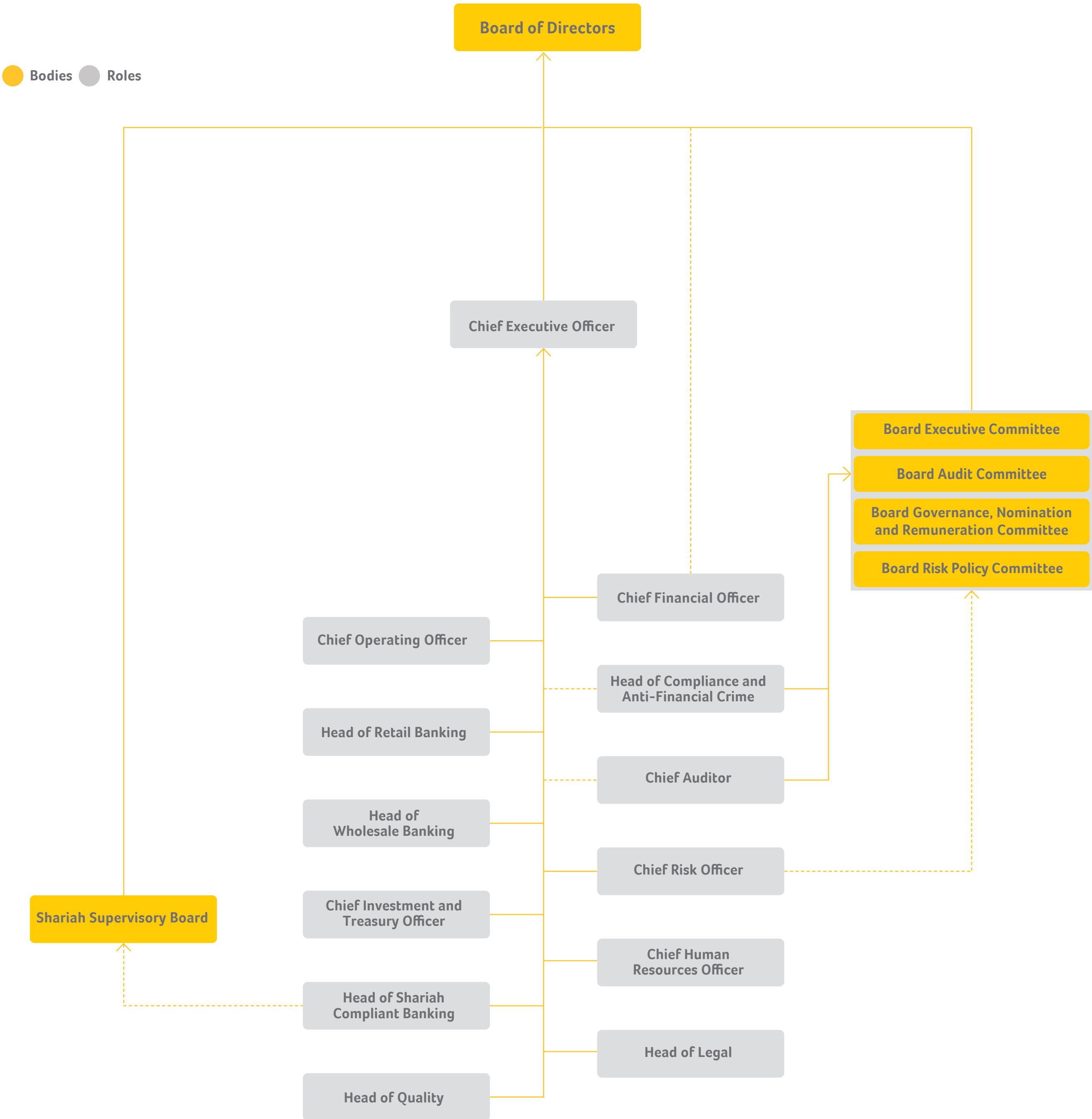
Marwan Abiad
Chief Financial Officer

Marwan Abiad has 38 years' international experience in banking, insurance, risk management, finance, accounting, technology and operations. He holds a BBA and an MBA from the American University of Beirut, Lebanon and CPA, CFA and FRM charters.

Yasser Al-Anssari
Compliance Head and Group Money Laundering Reporting Officer

Yasser Al-Anssari has over 23 years' experience in compliance and governance in the Kingdom of Saudi Arabia and holds a BSc in Management with Compliance from the University of Manchester, UK. He is a Certified Compliance Officer; a Certified Anti-Money Laundering Specialist (CAMS); and holds two Graduate Diplomas in Anti Money Laundering and International Compliance from the International Compliance Association.

Organisation and corporate governance chart



Financial statements

For the period ended 31st December 2020

Contents

Independent Auditors' Report on the Audit of the Financial Statements to the Shareholders of Gulf International Bank – Saudi Arabia (A Saudi Closed Joint Stock Company)

Building a better working world

KPMG Al Fozan & Partners
Certified Public Accountants

Opinion

We have audited the financial statements of Gulf International Bank – Saudi Arabia (the "Bank"), which comprise the statement of financial position as at 31 December 2020, and the statement of income, statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Professional Accountants ("SOCPA").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") 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 Financial Statements section of our report. We are independent of the Bank in accordance with the professional code of conduct and ethics, that are endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information included in the Bank's 2020 Annual Report

Management is responsible for the other information in the Bank's annual report. Other information consists of the information included in the Bank's 2020 annual report, other than the 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 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 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 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 Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the IFRS that are endorsed in Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, , the 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 controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank'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 management either intends to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Those charged with governance, the Board of Directors, are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 controls.
- Obtain an understanding of the internal controls 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 Bank's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's 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 Bank'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 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 Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 controls 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on other legal and regulatory requirements

Based on the information that has been made available to us while performing our audit procedures, nothing has come to our attention that causes us to believe that the Bank was 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 financial statements for the year ended 31 December 2020.

Ernst & Young & Co.
(Certified Public Accountants)

P.O. Box 3795
Al Khobar 31952
Kingdom of Saudi Arabia

Waleed G. Tawfiq
License No. 437

KPMG Al Fozan & Partners
(Certified Public Accountants)

P.O. Box 4803
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Kingdom of Saudi Arabia

Dr. Abdullah Hamad Al Fozan
License No. 348

10 Shaban 1442 H
(23 March 2021)
Al Khobar

Statement of Financial Position

As at 31st December 2020

	Note	2020 SAR' 000	2019 SAR' 000
ASSETS			
Cash and balances with Central Bank	4	**8,924,059**	8,243,841
Due from banks and other financial institutions	5	**1,267,331**	1,448,087
Investments held at fair value through statement of income	6	**224,465**	203,621
Investments held at fair value through other comprehensive Income	6	**370,052**	381,079
Investments held at amortised cost	6	**2,566,536**	2,189,046
Positive fair value of derivatives	12	**284,991**	160,959
Loans and advances, net	7	**18,761,718**	17,490,442
Property and equipment, net	8	**65,820**	76,683
Intangible assets	9	**47,036**	50,883
Right-of-use assets	11	**217,943**	235,981
Other assets	10	**152,420**	146,157
Total assets		**32,882,371**	30,626,779
LIABILITIES AND EQUITY			
Liabilities			
Due to banks and other financial institutions	13	**2,320,715**	578,469
Customers' deposits	14	**22,368,371**	21,716,758
Negative fair value of derivatives	12	**324,578**	175,739
Government grant	33	**23,182**	-
Lease liabilities		**213,278**	224,542
Other liabilities	15	**573,094**	424,392
Total liabilities		**25,823,218**	23,119,900
Equity			
Share capital	16	**7,500,000**	7,500,000
Statutory reserve	17	**1,753**	1,753
Fair value reserve		**(8,982)**	2,045
(Accumulated losses)/retained earnings		**(433,618)**	3,081
Total equity		**7,059,153**	7,506,879
Total liabilities and equity		**32,882,371**	30,626,779

The financial statements were approved by the Board of Directors on 16 February 2021 and signed on its behalf by:

Abdulla Mohammed Al Zamil
Chairman

Abdulaziz A. Al-Helaissi
Chief Executive Officer

Marwan Abiad
Chief Financial Officer

The accompanying notes 1 to 36 form an integral part of these financial statements.

Statement of Income

For the year ended 31st December 2020

	Note	2020 SAR'000	For the period from 3rd April 2019 to 31st December 2019 SAR'000
Special commission income	19	**686,341**	781,039
Special commission expense	19	**(225,233)**	(381,392)
Net special commission income		**461,108**	399,647
Fee and commission income	20	**98,188**	60,956
Fee and commission expense	20	**(3,942)**	(3,603)
Net fee and commission income		**94,246**	57,353
Exchange income, net		**26,442**	15,445
Gain/(Loss) on investments at FVTPL, net		**20,844**	(681)
Dividend income		**10,827**	13,453
Gain on other FVTPL financial instruments, net		**2,916**	4,669
Other operating income		**11,251**	3,368
Total operating income for the year/period		**627,634**	493,254
Salaries and employees'-related expenses	21	**(264,264)**	(187,390)
Rent and premises-related expenses		**(14,678)**	(14,016)
Depreciation and amortisation	8, 9,11	**(79,920)**	(63,896)
Other general and administrative expenses	22	**(168,467)**	(115,297)
Operating expenses before credit impairment charge for the year/period		**(527,329)**	(380,599)
Impairment charge for expected credit losses, net	7	**(524,156)**	(121,841)
Impairment charge on investments, net	6	**2,662**	(1,062)
Impairment (charge)/reversal on other financial assets		**(5,308)**	19,274
Total operating expenses for the year/period		**(1,054,131)**	(484,228)
Net operating (loss) / income for the year/period		**(426,497)**	9,026
Zakat for the year/period	23	**(11,498)**	(2,017)
Net (loss) / income for the year / period		**(437,995)**	7,009
Earnings per share (Expressed in SAR per share)			
Basic and diluted earnings per share	16	**(0.584)**	0.009

The accompanying notes 1 to 36 form an integral part of these financial statements.

Statement of Comprehensive Income

For the year ended 31st December 2020

	2020 SAR'000	For the period from 3 April 2019 to 31 December 2019 SAR'000
Net (loss) / income for the year / period	**(437,995)**	7,009
Other comprehensive income		
Items that will not be reclassified to statement of income in subsequent periods		
- Fair Value through Other Comprehensive income (FVOCI) equity investments:		
- Net change in fair value	**(11,027)**	(3,488)
- Actuarial gains on defined benefit pension plans	**1,296**	3,358
Total other comprehensive (loss) / income for the year / period	**(447,726)**	6,879

The accompanying notes 1 to 36 form an integral part of these financial statements.

Statement of Changes In Equity

For the years ended 31st December 2020 and 2019

	Share capital SAR'000	Statutory reserve SAR'000	Fair value reserve SAR'000	Retained earnings/ (accumulated losses) SAR'000	Total equity SAR'000
Share capital issuance on 3rd April 2019	7,500,000	-	-	-	7,500,000
Net income for the period	-	-	-	7,009	7,009
Net change in fair value of equity investments classified as fair value through other comprehensive income	-	-	(3,488)	-	(3,488)
Actuarial gain on defined benefit pension plan	-	-	-	3,358	3,358
Total comprehensive income for the period	-	-	(3,488)	10,367	6,879
Realised loss on sale of equity investments	-	-	5,533	(5,533)	-
Transfer from retained earnings	-	1,753	-	(1,753)	-
At 31st December 2019	7,500,000	1,753	2,045	3,081	7,506,879
At 1st January 2020	7,500,000	1,753	2,045	3,081	7,506,879
Net loss for the period	-	-	-	(437,995)	(437,995)
Net change in fair value of equity investments classified as fair value through other comprehensive income	-	-	(11,027)	-	(11,027)
Actuarial gain on defined benefit pension plan	-	-	-	1,296	1,296
Total comprehensive loss for the period	-	-	(11,027)	(436,699)	(447,726)
At 31st December 2020	**7,500,000**	**1,753**	**(8,982)**	**(433,618)**	**7,059,153**

The accompanying notes 1 to 36 form an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31st December 2020

	Note	2020 SAR'000	For the period from 3 April 2019 to 31 December 2019 SAR'000
OPERATING ACTIVITIES			
Net (loss) / income before zakat		**(426,497)**	9,026
Adjustments to reconcile net (loss) / income before zakat to net cash flow from operating activities:			
Net accretion of discount on financial assets at amortised cost		**(1,628)**	(4,066)
Depreciation of property and equipment		**26,873**	24,787
Amortisation of intangibles		**24,978**	16,997
Depreciation of right of use		**28,069**	22,112
Write off		**113**	4,773
Impairment (reversal)/charge for investments, net		**(2,662)**	1,062
Impairment charge for credit losses, net		**524,156**	121,841
Impairment charge/(reversal) for other financial assets		**5,308**	(19,274)
Unrealised (gain)/loss on investments		**(20,844)**	681
		157,866	177,939
Net (increase) / decrease in operating assets:			
Statutory deposit with Central Bank		**(108,671)**	279,183
Due from banks and other financial institutions		**-**	(30,018)
Positive fair value of derivative financial instruments		**(124,032)**	(63,062)
Loans and advances		**(1,795,432)**	(758,113)
Other assets		**(11,571)**	(33,510)
Net increase in operating liabilities:			
Due to banks and other financial institutions		**1,742,246**	48,731
Negative fair value of derivatives		**148,839**	70,676
Customers' deposits		**651,613**	1,773,080
Other liabilities		**161,682**	49,475
Net cash generated from operating activities		**822,540**	1,514,381
INVESTING ACTIVITIES			
Purchase of investments		**(413,200)**	(434,923)
Proceeds from sale of investments		**40,000**	731,163
Purchase of property and equipment and intangible assets		**(37,254)**	(55,356)
Net cash (outflow) / inflow from investing activities		**(410,454)**	240,884
FINANCING ACTIVITIES			
Principal repayment of lease liabilities		**(21,295)**	(11,110)
Net increase in cash and cash equivalents		**390,791**	1,744,155
Cash and cash equivalents at the beginning of the period		**8,703,467**	6,959,312
CASH AND CASH EQUIVALENTS AT END OF THE YEAR / PERIOD	24	**9,094,258**	8,703,467
Special commission received during the year / period		**757,763**	904,779
Special commission paid during the year / period		**(284,426)**	(505,132)
Supplemental non-cash information			
Net change in fair value of equity investments classified as FVTOCI		**(11,027)**	(3,488)
Amounts transferred to share capital from:			
Due to banks and other financial institutions		**-**	3,750,000
Customers' deposits		**-**	3,750,000

The accompanying notes 1 to 36 form an integral part of these financial statements.

Notes to the Financial Statements

At 31st December 2020

1. General

The activities of Gulf International Bank – Saudi Arabia (the Bank) were previously carried out as 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 24th November 1975 under the commercial registration number 466002. Effective from 27 Rajab 1440 (corresponding to 3rd 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 26th Jumada Al-Thani 1439H, corresponding to 14th March 2018, and SAMA approval number 391000082125 dated 23rd Rajab 1439H, corresponding to 9th April 2018. The address of the registered office of the Bank is as follows:

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 number of employees totalling 594 as at 31 December 2020 excluding outsourced employees. Upon formation of the Saudi Closed Joint Stock Company, the net assets and liabilities of the foreign branch of Gulf International Bank B.S.C – Kingdom of Bahrain were transferred to the Bank. The net assets and liabilities transferred at 3rd April 2019 were as follows:

	SAR'000
ASSETS	
Cash and balances with SAMA	6,408,271
Due from banks and other financial institutions	1,788,667
Investments, net	3,071,151
Positive fair value of derivative financial instruments	97,897
Loans and advances, net	16,854,170
Property and equipment, net	72,320
Intangible assets, net	46,447
Right-of-use assets	75,377
Other assets	93,373
Total assets	**28,507,673**
LIABILITIES	
Due to banks and other financial institutions	4,279,738
Customers' deposits	23,693,678
Negative fair value of derivative financial instruments	105,063
Lease liabilities	52,936
Other liabilities	376,258
Total liabilities	**28,507,673**
Net assets	-

Transfers of the above assets and liabilities were made in accordance with the Articles of Association of the Bank and the resolution of the Bank's shareholders. The Bank's Capital amounting to SR 7.5 billion was injected equally by both shareholders of the Bank, Public Investment Fund and Gulf International Bank B.S.C. The amounts transferred to share capital were from due to banks and other financial institutions and customer deposits as non-cash transactions.

Notes to the Financial Statements

At 31st December 2020

1. General (continued)

The objective of the Bank is to provide a full range of banking and investment services. The Bank also provides to its customers Islamic (non-commission based) banking products that are approved and supervised by an independent Shariah Board established by the Bank.

Name of subsidiary / Fund	Country of incorporation	Ownership %	Proportion of ownership/voting power
Dar Enjaz Gulf Real Estate Company	Kingdom of Saudi Arabia	100%	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.
GIB Opportunistic Saudi Equity Fund	Kingdom of Saudi Arabia	92.44%	The funds' investment objective is to generate returns by investing in equity instruments listed on Tadawul.
GIB Saudi Equity Fund	Kingdom of Saudi Arabia	99.46%	The funds' investment objective is to generate returns by investing in equity instruments listed on Tadawul.
GIB Opportunistic MENA Equity Fund	Kingdom of Saudi Arabia	99.94%	The funds' investment objective is to generate returns by investing in MENA equity instruments.
GIBC Investment Fund 15	Kingdom of Saudi Arabia	100%	The funds' investment objective is to generate returns by investing in MENA equity instruments.

The Bank neither consolidates the financial assets, liabilities and results of the subsidiaries, nor its investments in GIB Opportunistic Saudi Equity Fund, GIB Saudi Equity Fund, GIB Opportunistic MENA Equity Fund, GIBC Investment Fund 15 and Dar Enjaz Gulf Real Estate Company in accordance with the exemption available in paragraph 4 of IFRS 10: Consolidated Financial Statements, and account for its investments in these entities at fair value through the income statement.

2. Basis of preparation

a) Statement of Compliance

The financial statements of the Bank have been prepared:

- in accordance with 'International Financial Reporting Standards (IFRS) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA) and
- in compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and by-laws of the Bank.

b) Basis of measurement and presentation

The financial statements are prepared on a going concern basis under the historical cost convention except for the measurement at fair value of derivatives, financial instruments held at Fair Value through Profit or Loss (FVTPL), FVOCI investments and defined benefit obligations. In addition, financial assets or liabilities that are hedged in a fair value hedging relationship, and otherwise adjusted to record changes in fair value attributable to the risks that are being hedged.

The statement of financial position is stated broadly in order of liquidity.

c) Functional and presentation currency

These financial statements are presented in Saudi Arabian Riyals (SAR), which is the Bank's functional currency. Except as otherwise indicated, financial information presented in SAR has been rounded off to the nearest thousand.

d) Period of financial statements

According to Clause 46 of the Bank's Articles of Association, the Bank's fiscal year begins on 1st January and ends on December 31 of each Gregorian year, and the first fiscal year starts from the date of commercial registration (April 3, 2019) to December 31, 2019. The 2019 comparative financial statements have been prepared for the period from April 3, 2019 to December 31, 2019.

Notes to the Financial Statements

At 31st December 2020

2. Basis of preparation (continued)

e) Critical accounting judgements, estimates and assumptions

The preparation of the financial statements in conformity with IFRS that are endorsed in the KSA and other standards and pronouncements that are endorsed by SOCPA, requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Such judgements, estimates, and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances.

The Covid-19 pandemic continues to disrupt global markets as many geographies are experiencing a "second wave" of infections despite having previously controlled the outbreak through aggressive precautionary measures such as imposing restrictions on travel, lockdowns and strict social distancing rules. The Government of Kingdom of Saudi Arabia ("the Government") however has managed to successfully control the outbreak to date, owing primarily to the unprecedented yet effective measures taken by the Government, following which the Government has ended the lockdowns and has taken phased measures towards normalisation.

Recently, number of Covid-19 vaccines have been developed and approved for mass distribution by various governments around the world. The Government has also approved a vaccine which is currently available for healthcare workers and certain other categories of people and it will be available to the masses in general during 2021. Despite the fact that there are some uncertainties around the Covid-19 vaccine such as how long the immunity lasts, whether vaccine will prevent transmission or not etc.; however, the testing results showed exceptionally high success rates. Hence, the Bank continues to be cognisant of both the micro and macroeconomic challenges that Covid-19 has posed, the teething effects of which may be felt for some time, and is closely monitoring its exposures at a granular level. The Bank has made various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 December 2020 about future events that the Bank believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these estimates. The underlying assumptions are also subject to uncertainties which are often outside the control of the Bank. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses, fair value measurement, and the assessment of the recoverable amount of non-financial assets. The impact of the Covid-19 pandemic on each of these estimates is discussed further in the relevant note of these financial statements.

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. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

i) Expected credit losses ("ECL") on financial assets

The measurement of ECL under IFRS 9 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:

1. The selection of an estimation technique or modelling methodology, covering below key judgements and assumptions:

- The Bank's internal credit grading model, which assigns Probability of Default (PD) 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
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

Notes to the Financial Statements

At 31st December 2020

2. Basis of preparation (continued)

e) Critical accounting judgements, estimates and assumptions (continued)

i) Expected credit losses ("ECL") on financial assets (continued)

2. the selection of inputs for those models, and the interdependencies between those inputs such as macroeconomic scenarios and economic inputs.

ii) Fair value Measurement

Where the fair value of financial assets and liabilities cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is derived from observable markets where available, but where this is not feasible, a degree of judgement is required in determining assumptions used in the models. Changes in assumptions used in the models could affect the reported fair value of financial assets and liabilities.

iii) Classification of investments at amortised cost

Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial assets are SPPI on the principal amount outstanding.

iv) Depreciation and amortisation

Assessment of the assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

v) Going concern

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

3. Summary of significant accounting policies

Change in accounting policies

Below amendments to accounting standards and interpretations became applicable for annual reporting periods commencing on or after January 1, 2020:

(a) Interest Rate Benchmark Reform (Amendment to IFRS 9, IAS 39 and IFRS 7) (note 3.1)

(b) Definition of a Business (Amendments to IFRS 3

(c) Definition of Material (Amendments to IAS 1 and IAS 8)

(d) Amendments to References to the Conceptual Framework in IFRS Standards.

3.1 IBOR Transition (Interest Rate Benchmark Reforms)

A fundamental review and reform of major interest rate benchmarks is being undertaken globally. The International Accounting Standards Board ("IASB") is engaged in a two-phase process of amending its guidance to assist in a smoother transition away from Inter-bank Offered Rates ("IBOR").

Phase (1) - The first phase of amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures focused on hedge accounting issues. The final amendments, issued in September 2019, amended specific hedge accounting requirements to provide relief from the potential effects of the uncertainty caused by IBOR reform. The amendments are effective from January 01, 2020 and are mandatory for all hedge relationships directly affected by IBOR reform.

Notes to the Financial Statements

At 31st December 2020

3. Summary of significant accounting policies (continued)

Accounting Standards issued but not yet effective

The accounting standards, amendments and revisions which have been published and are mandatory for compliance for the Bank's accounting year beginning on or after January 1, 2021 are listed below. The Bank has opted not to early adopt these pronouncements and they do not have a significant impact on the interim condensed consolidated financial statements.

- Covid-19 – Related Rent Concessions (Amendments to IFRS 16)
- IFRS 17 – "Insurance contracts", applicable for the period beginning on or after January 1, 2023.
- Amendments to IAS 1 – "Classification of Liabilities as Current or Non-current", applicable for the period beginning on or after January,1, 2022
- Onerous contracts – Cost of Fulfilling a contract (Amendments to IAS 37)
- Interest Rate Benchmark Reform – Phase 2 (amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
- Reference to Conceptual Framework (Amendments to IFRS 3)

Phase (2) - The second phase relates to the replacement of benchmark rates (IBOR) with alternative risk-free rates (RFR). The Phase 2 amendments are effective for annual periods beginning on or after January 01, 2021 and early application is permitted. Now that the Phase 2 Amendments have been finalised, the Bank will complete its assessment of the accounting implications of the scenarios it expects to encounter as the transition from IBORs to RFRs in order to accelerate its programs to implement the new requirements. The Phase 2 Amendments introduce new areas of judgement, the Bank needs to ensure it has appropriate accounting policies and governance in place. For the additional disclosures, the Bank will have to assess and implement required updates in the financial reporting systems and processes to gather and present the information required.

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

Classification of financial assets

On initial recognition, a financial asset is classified as measured at amoritised cost, fair value through other comprehensive income ("FVOCI") or fair value through the income statement ("FVTPL").

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 FVTPL:

a- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

b- 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 FVTPL:

i) the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in the statement of income.

Notes to the Financial Statements

At 31st December 2020

3. Summary of significant accounting policies (continued)

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 FVTPL

All other financial assets are classified as measured at FVTPL.

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 FVTPL 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 interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or 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 change the classification of the remaining financial assets held in that business model.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL 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.

Notes to the Financial Statements

At 31st December 2020

3. Summary of significant accounting policies (continued)

Designation at fair value through profit or loss

At initial recognition, the Bank has irrevocably designated certain financial assets at FVTPL to eliminate or significantly reduces the accounting mismatch.

Classification of financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the effective interest rate ("EIR").

Derecognition

- **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 (debt Instruments), 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 the statement of income.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and repurchase transactions, as the Bank retains all or substantially all of the risks and rewards of ownership of such assets.

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.

In certain transactions, the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in the statement of income 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.

- **Financial liabilities**

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

Modifications of financial assets and financial liabilities

- **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 the statement of income. 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.

Notes to the Financial Statements

At 31st December 2020

3. Summary of significant accounting policies (continued)

- **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 the statement of income.

Impairment

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

i) financial assets that are debt instruments;

ii) financial guarantee contracts issued; and

iii) 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:

a- debt investment securities that are determined to have low credit risk at the reporting date; and

b- 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. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the 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.

Notes to the Financial Statements

At 31st December 2020

3. Summary of significant accounting policies (continued)

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit impaired. A financial asset is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial 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 bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the 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.

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 interest 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 at the higher of this amortised amount and the amount of loss allowance. The Bank has issued no loan commitments that are measured at FVTPL. For other loan commitments, the Bank recognises loss allowance.

Notes to the Financial Statements

At 31st December 2020

3. Summary of significant accounting policies (continued)

Government grant

The Bank recognises a government grant related to income, if there is a reasonable assurance that it will be received and the Bank will comply with the conditions associated with the grant. The benefit of a government deposit at a below-market rate of interest is treated as a government grant related to income. The below-market rate deposit is recognised and measured in accordance with IFRS 9 Financial Instruments. The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the deposit determined in accordance with IFRS 9 and the proceeds received. The benefit is accounted for in accordance with IAS 20. Government grant is recognised in statement of income on a systematic basis over the periods in which the bank recognises as expenses the related costs for which the grant is intended to compensate. The grant income is only recognised when the ultimate beneficiary is the Bank. Where the customer is the ultimate beneficiary, the Bank only records the respective receivable and payable amounts.

Revenue / expenses recognition

Special commission income and expenses

Special commission income and expense are recognised in the statement of income using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to or the amortised cost of the financial instrument.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Measurement of amortised cost and special commission income

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

- **Exchange income/ (loss)**

Exchange income/ (loss) is recognised as discussed in foreign currencies policy above.

- **Fees and Commission income**

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

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Notes to the Financial Statements

At 31st December 2020

3. Summary of significant accounting policies (continued)

- **Dividend income**

Dividend income is recognised when the right to receive income is established. Dividends are reflected as a component of net trading income, net income from FVTPL financial instruments or other operating income based on the underlying classification of the equity instrument.

- **Net trading income / (loss)**

Net income from other financial instruments at FVTPL relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedge relationships, financial assets and financial liabilities designated as at FVTPL.

Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the statement of financial position as the bank retains substantially all the risks and rewards of ownership. When substantially all the risks and rewards of ownership remain with the Bank. These assets are continued to measure in accordance with related accounting policies for investments held as FVTPL, FVOCI, other investments held at amortised cost. The transactions are treated as collateralised borrowing and counter-party liability for amounts received under these agreements is included in "Cash and balances with SAMA" or "Due to banks and other financial institutions" or "Customer deposits", as appropriate. The difference between sale and repurchase price is treated as special commission expense and accrued over the life of the repo agreement on an effective yield basis. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognised in the statement of financial position, as the bank does not obtain control over the assets. Amounts paid under these agreements are included in "Cash and balances with SAMA", "Due from banks and other financial institutions" or "Loans and advances", as appropriate. The difference between purchase and resale price is treated as special commission income and accrued over the life of the reverse repo agreement on an effective yield basis.

Settlement date accounting

All regular-way purchases and sales of financial assets are recognised and derecognised on the settlement date i.e. the date on which the asset is delivered to, or received, from the counterparty. The Bank accounts for any changes in fair values between the trade date and the settlement date in the same way as it accounts for the acquired asset. Regular-way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or convention in the marketplace.

A financial asset or a financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

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 share trading and fund management, Trade finance, Corporate finance and advisory and other banking services, should be recognised at the point when services are rendered i.e. when performance obligation is satisfied. Whereas for free services related to credit card, the Bank recognises revenue over the period of time.

Derivative financial instruments and hedge accounting

Derivative financial instruments, including foreign exchange contracts, commission rate futures, forward rate agreements, currency and commission rate swaps, currency and commission rate options (both written and purchased) are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value in the statement of financial position with transaction costs recognised in the statement of income. All derivatives are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models and pricing models as appropriate.

The treatment of changes in their fair value depends on their classification into the following categories:

i) Derivatives held for trading

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to the statement of income and disclosed in net trading income. Derivatives held for trading also include those derivatives, which do not qualify for hedge accounting.

Notes to the Financial Statements

At 31st December 2020

3. Summary of significant accounting policies (continued)

ii) Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Bank accounts for an embedded derivative separately from the host contract when:

- the host contract is not an asset in the scope of IFRS 9;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value. with all changes in fair value recognised in the statement of income unless they form part of a qualifying cash flow or net investment hedging relationship.

For financial assets, the requirements are whether the financial asset contains contractual terms that give rise on specified date to cashflows that are SPPI, and consequently the accounting of embedded derivatives are not applicable to financial assets.

iii) Hedge Accounting

The Bank designates certain derivatives as hedging instruments in qualifying hedging relationships to manage exposures to interest rate, foreign currency, and credit risks, including exposures arising from highly probable forecast transactions and firm commitments. In order to manage particular risk, the bank applies hedge accounting for transactions that meet specific criteria.

For the purpose of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability, (or assets or liabilities in case of portfolio hedging), or an unrecognised firm commitment or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the reported net gain or loss; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or to a highly probable forecasted transaction that will affect the reported net gain or loss.

In order to qualify for hedge accounting, the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item and should be reliably measurable. At inception of the hedge, the risk management objective and strategy are documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an on-going basis.

Fair Value Hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect statement of income, any gain or loss from re-measuring the hedging instruments to fair value is recognised immediately in the statement of income together with change in the fair value of the hedged item attributable to the hedged risk under non-trading gains / losses in the statement of income.

For hedged items measured at amortised cost, where the fair value hedge of a commission bearing financial instrument ceases to meet the criteria for hedge accounting or is sold, exercised or terminated, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the effective commission rate method, (the hedge item is also fair-valued). If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the statement of income.

Foreign Currencies

The financial statements are presented in Saudi Arabian Riyals.

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the spot rates prevailing at transaction dates. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at rates of exchange prevailing at 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 interest rate and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. All differences arising on non-trading activities are taken to other non-operating income in the statement of income.

Foreign currency differences arising from the translation of recognised in FVOCI equity investments.

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.

Notes to the Financial Statements
At 31st December 2020

3. Summary of significant accounting policies (continued)

Offsetting financial instruments

Financial assets and liabilities are offset and reported net in the statement of financial position when there is a currently legally enforceable right to set off the recognised amounts and when the Bank 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 statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the bank.

Fair value measurement

The Bank measures financial instruments, such as, derivatives and equity instruments and non-financial assets, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in note 29.

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 by the Bank.

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 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

The Bank's investment committee determines the policies and procedures for both recurring fair value measurement, such as unquoted FVOCI financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operation. The investment committee comprises of the senior management committee members and is chaired by the Chief Executive Officer.

Expert judgement is involved for valuation of significant assets, such FVOCI financial assets, and significant liabilities, such as contingent consideration. Involvement of experts is decided upon annually by the investment committee after discussion with and approval by the Bank's audit committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The investment committee decides, after discussions with the experts, which valuation techniques and inputs to use for each case.

At each reporting date, the investment committee analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, the investment committee verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The investment committee, in conjunction with the Bank's experts, also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

On a periodic basis, the investment committee present the valuation results to the audit committee and the Bank's independent auditors. This includes a discussion of the major assumptions used in the valuations.

For the purpose of fair value disclosures, the Bank 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.

Notes to the Financial Statements

At 31st December 2020

3. Summary of significant accounting policies (continued)

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. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a periodic basis. However, some collateral, for example, cash or 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. Other financial assets which do not have readily determinable market values are valued using models. 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 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.

In its normal course of business, the Bank does not physically repossess properties or other assets in its retail portfolio, but engages external agents to recover funds, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the balance sheet.

Property and equipment

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment loss. Freehold land is not depreciated. Changes in the expected useful life are accounted for by changing the period or method, as appropriate, and treated as changes in accounting estimates.

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Bank. On-going repairs and maintenance are expensed as incurred.

The cost of other property and equipment is depreciated and amortised on the straight-line method over the estimated useful lives of the assets as follows:

Leasehold improvements	Ten years or over the period of lease, whichever is the shorter.
Furniture, equipment and vehicles	Four to five years
Intangible assets	Four to five years

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of income.

All assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Any carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Notes to the Financial Statements

At 31st December 2020

3. Summary of significant accounting policies (continued)

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in the statement of income in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of income in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

An intangible asset is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income.

Provisions

Provisions are recognised when a reliable estimate can be made by the Bank for a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation.

Provisions for liabilities and charges

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

Accounting for leases

Right of Use Asset / Lease Liabilities

On initial recognition, at inception of the contract, the Bank shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is identified if most of the benefits are flowing to the Bank and the Bank can direct the usage of such assets.

At inception or on reassessment of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Bank has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Right of Use Assets

The Bank applies the cost model, and measure right of use asset at cost; less any accumulated depreciation and any accumulated impairment losses; and adjusted for any re-measurement of the lease liability for lease modifications.

Generally, Right of Use (RoU) asset would be equal to the lease liability. However, if there are additional costs such as Site preparation, non-refundable deposits, application money, other expenses related to transaction etc. need to be added to the RoU asset value. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment

Notes to the Financial Statements

At 31st December 2020

3. Summary of significant accounting policies (continued)

Lease Liability

On initial recognition, the lease liability is the present value of all remaining payments to the lessor, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

After the commencement date, Bank measures the lease liability by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payments made and; re-measuring the carrying amount to reflect any re-assessment or lease modification.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, or if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in the statement of income if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets:

The Bank has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets, including IT equipment The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Cash and cash equivalents

For the purpose of the 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 three months or less which are subject to insignificant risk of changes in their fair value.

End of service benefits (Defined benefit plan)

The Bank operates a non-funded employee terminal benefit plan, which is classified as a defined benefit obligation under IAS 19 'Employee Benefits'. A defined benefit plan is a plan which is not a defined contribution plan. The liability recognised in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets at that date. The defined benefit obligation is calculated by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting estimated future cash outflows using market yields at the end of the reporting period of high-quality corporate bonds that have terms to maturity approximating to the estimated term of the post-employment benefit obligations. Actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments are recognised in equity through the statement of comprehensive income in the period in which they arise.

Zakat

The Bank is subject to Zakat in accordance with the regulations of the General Authority of Zakat and Income Tax ("GAZT"). Zakat expense is charged to the statement of income. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to zakat.

Islamic banking products

In addition to the conventional banking, the Bank offers its customers certain Islamic banking products, which are approved by its Shariah Board, as follows:

High level definitions of Islamic products

(i) Murabaha is an agreement whereby the Bank sells to a customer a commodity or an asset, which the bank has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin.

(ii) Tawaraq is a form of Murabaha transactions where the Bank purchases a commodity and sells it to the customer. The customer sells the underlying commodity at spot and uses the proceeds for his financing requirements.

These non-commission-based banking products are included in "loans and advances" and are in conformity with the related accounting policies described in these financial statements.

Notes to the Financial Statements

At 31st December 2020

4. Cash and balances with Central Bank

	2020 SAR'000	2019 SAR'000
Cash in hand	**34,491**	43,814
Statutory deposits (note 4.1)	**1,097,132**	988,461
Current account	**10,653**	10,566
Money market placements with SAMA (note 4.2)	**7,781,783**	7,201,000
	8,924,059	8,243,841

4.1 In accordance with the Banking Control Law and regulations issued by Saudi Central Bank (SAMA), the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its customer, demand, savings, time and other deposits, calculated at the end of each month. The statutory deposits with SAMA are not available to finance the Bank's day-to-day operations and therefore are not part of cash and cash equivalents.

4.2 Money market placements with SAMA will mature on 3rd January 2021.

5. Due from banks and other financial institutions

	2020 SAR'000	2019 SAR'000
Current accounts	**486,980**	268,691
Money market placements	**780,351**	1,179,396
	1,267,331	1,448,087

The above includes Shariah based balances as below:

	2020 SAR'000	2019 SAR'000
Murabaha placements	**300,094**	375,268

The credit quality of due from banks and other financial institutions are assessed using external credit rating agencies. The above due from banks and other financial institutions balances are neither past due nor impaired.

6. Investments

a) Investment securities are classified as follows:

	2020 SAR'000	2019 SAR'000
Debt instruments	**2,566,536**	2,189,046
Equity investments	**428,527**	469,471
Mutual Funds	**165,990**	115,229
	3,161,053	2,773,746

All investment securities are in Saudi Arabia.

Notes to the Financial Statements

At 31st December 2020

6. Investments (continued)

The following table shows reconciliations from the opening to the closing balance of the loss allowance by class of financial instruments.

	12-month ECL	Lifetime ECL not credit impaired	Total
Balance as at 1st January 2020	**664**	**2,713**	**3,377**
Transfer to lifetime ECL not credit - impaired	-	-	-
Total transfers	-	-	-
Net remeasurement of loss allowance	**51**	**(2,713)**	**(2,662)**
Balance as at 31 December 2020	**715**	-	**715**

	12-month ECL	Lifetime ECL not credit impaired	Total
Balance as at 3rd April 2019	2,315	-	2,315
Transfer to lifetime ECL not credit - impaired	(935)	935	-
Total transfers	(935)	935	-
Net remeasurement of loss allowance	(716)	1,778	1,062
Balance as at 31 December 2019	664	2,713	3,377

b) Investments held at fair value through statement of income

	2020 SAR'000	2019 SAR'000
Equities	**58,475**	88,392
Mutual fund	**165,990**	115,229
	224,465	203,621

c) Investments held at fair value through other comprehensive income

	2020 SAR'000	2019 SAR'000
Equity investments	**370,052**	381,079

Notes to the Financial Statements
At 31st December 2020

6. Investments (continued)

d) Investments held at amortised cost.

	2020			2019		
	Quoted SAR' 000	Unquoted SAR' 000	Total SAR' 000	Quoted SAR' 000	Unquoted SAR' 000	Total SAR' 000
Debt securities - Fixed-rate securities	**1,805,262**	**377,028**	**2,182,290**	1,500,206	264,459	1,764,665
Debt securities - Floating-rate securities	**382,000**	**2,961**	**384,961**	382,000	45,758	427,758
Less: Allowance for Impairment	**(568)**	**(147)**	**(715)**	(634)	(2,743)	(3,377)
	2,186,694	**379,842**	**2,566,536**	1,881,572	307,474	2,189,046

The above includes Shariah based investments as below:

	2020 SAR'000	2019 SAR'000
Investment at amortised cost		
Sukuk	**2,311,579**	1,997,009

7. Loans and advances

	2020 SAR'000			
	Overdrafts	Commercial loans	Retail loans	Total
Performing loans and advances	**760,708**	**17,109,503**	**721,890**	**18,592,101**
Non-performing loans and advances	**-**	**792,281**	**1,334**	**793,615**
Gross loans and advances	**760,708**	**17,901,784**	**723,224**	**19,385,716**
Provisions for impairment	**(910)**	**(606,632)**	**(16,456)**	**(623,998)**
Loans and advances, net	**759,798**	**17,295,152**	**706,768**	**18,761,718**

Performing loans and advances held at amortised cost include SAR 269,812 thousand that are past due but not impaired.

	2019 SAR'000			
	Overdrafts	Commercial loans	Retail loans	Total
Performing loans and advances	326,134	16,067,330	494,437	16,887,901
Non-performing loans and advances	-	1,400,588	620	1,401,208
Gross loans and advances	326,134	17,467,918	495,057	18,289,109
Provisions for impairment	(826)	(790,081)	(7,760)	(798,667)
Loans and advances, net	325,308	16,677,837	487,297	17,490,442

Performing loans and advances include SAR 531,477 thousand that are delinquent but not impaired.

Notes to the Financial Statements

At 31st December 2020

7. Loans and advances (continued)

The above includes Shariah based loans and advances as below:

	2020 SAR'000	2019 SAR'000
Credit cards	**13,335**	11,050
Murabaha	**(1,087)**	(462)
Less: Credit Impairment Provision	**12,248**	10,588

	2020 SAR'000	2019 SAR'000
Consumer loans	**709,889**	484,007
Murabaha	**(15,369)**	(7,298)
Less: Credit Impairment Provision	**694,520**	476,709

	2020 SAR'000	2019 SAR'000
Corporate loans	**12,576,162**	12,316,734
Murabaha	**(334,733)**	(489,461)
Less: Credit Impairment Provision	**12,241,429**	11,827,273

An analysis of changes in loss allowance for loans and advances is, as follows:

	2020 SAR'000			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL not credit impaired	Stage 3 (Lifetime ECL credit impaired	Total
At the beginning of year	53,163	74,090	671,414	798,667
Transfers during the year				
Transfer to Stage 1	1,369	(1,369)	-	-
Transfer to Stage 2	(3,041)	3,041	-	-
Transfer to Stage 3	-	(12,505)	12,505	-
Total transfers during the year	(1,672)	(10,833)	12,505	-
Net charge for the year - Commercial	40,532	18,163	454,695	513,390
Net charge for the year - Retail	8,707	1,870	189	10,766
Write-offs - Commercial	-	-	(696,686)	(696,686)
Write-offs - Retail	-	-	(2,139)	(2,139)
At the end of the year	100,730	83,290	439,978	623,998

Notes to the Financial Statements

At 31st December 2020

7. Loans and advances (continued)

	2019 SAR'000			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL not credit impaired	Stage 3 (Lifetime ECL credit impaired	Total
Balance at beginning of period	52,246	113,370	1,525,093	1,690,709
Transfers during the period				
Transfer to Stage 1	1,100	(1,100)	-	-
Transfer to Stage 2	(4,561)	4,561	-	-
Transfer to Stage 3	-	(58,263)	58,263	-
Total transfers during the period	(3,461)	(54,802)	58,263	-
Net charge for the year - Commercial	2,338	15,522	97,300	115,160
Net charge for the year - Retail	2,040	-	4,641	6,681
Write-offs - Commercial	-	-	(1,010,307)	(1,010,307)
Write-offs - Retail	-	-	(3,576)	(3,576)
At the end of the period	53,163	74,090	671,414	798,667

The retail portfolio of the Bank did not have any movement between stages during the year and period ended 31 December 2020 and 31 December 2019, respectively.

8. Property and equipment, net

	Leasehold improvements	Furniture, equipment and vehicles	Work in progress	Total 2020	Total 2019
			SR'000		
Cost					
At the beginning of the year/period	63,014	129,504	31,838	224,356	207,333
Additions	817	227	22,187	23,231	33,923
Transfers	13,111	18,230	(31,341)	-	-
Reclassification to intangibles	-	-	(7,108)	(7,108)	
Write offs	(1,383)	(10,710)	-	(12,093)	(16,900)
At 31st December	75,559	137,251	15,576	228,386	224,356
Accumulated depreciation					
At the beginning of the year/period	40,718	106,955	-	147,673	135,013
Charge for the year/period	10,160	16,713	-	26,873	24,787
Disposal	(1,314)	(10,666)	-	(11,980)	(12,127)
At 31st December 2020	49,564	113,002	-	162,566	147,673
Carrying amount 2020	25,995	24,249	15,576	65,820	
Carrying amount 2019	22,279	22,549	31,838		76,683

Notes to the Financial Statements

At 31st December 2020

9. Intangible assets

	Software	Work in progress	Total 2020	Total 2019
		SR'000		
Cost				
At the beginning of the period	115,240	11,090	126,330	104,897
Additions	9,729	4,294	14,023	21,433
Transfers	10,380	(10,380)	-	-
Reclassification from property and equipment	-	7,108	7,108	
At 31st December	135,349	12,112	147,461	126,330
Accumulated amortisation				
At the beginning of the period	75,447	-	75,447	58,450
Charge for the year	24,978	-	24,978	16,997
At 31st December	100,425	-	100,425	75,447
Carrying amount 2020	34,924	12,112	47,036	
Carrying amount 2019	39,793	11,090		50,883

10. Other assets

	2020 SAR'000	2019 SAR'000
Accrued interest on derivatives	10,576	39,415
Prepayments	34,474	39,895
Due from related parties (note 30)	72,992	53,103
Outward Clearing Cheques	99	5,506
VAT Receivable	3,446	1,754
Others	30,833	6,484
	152,420	146,157

11. Leases

a) Right-of-use assets

Movement in right-of-use assets

	2020 SAR'000	2019 SAR'000
At the beginning of year/ period	235,981	75,377
Additions	10,031	182,716
Depreciation	(28,069)	(22,112)
At the end of the year/ period	217,943	235,981

b) Interest expense recognised in in the statement of income against lease liabilities amounted to SAR 3,102 thousand.

Notes to the Financial Statements

At 31st December 2020

12. Derivatives

In the ordinary course of business, the Bank utilises the following derivative financial instruments for both trading and hedging purposes:

a) Swaps

Swaps are commitments to exchange one set of cash flows for another. For 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 and futures

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are amortised contracts transacted in the over-the-counter markets. Foreign currency and commission rate futures are transacted in standardised amounts on regulated exchanges and changes in futures contract values are settled daily.

c) Forward rate agreements

Forward rate agreements are individually negotiated commission rate contracts that call for a cash settlement for the difference between a contracted commission rate and the market rate on a specified future date, on a notional principal for an agreed period of time.

d) 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 fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price.

Held for trading purposes

Most of the Bank's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers and banks in order, inter alia, to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage involves identifying, with the expectation of profiting from price differentials between markets or products.

Held for hedging purposes

The Bank has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Bank's exposure to fluctuations in foreign exchange and commission rates to reduce its exposure to currency and commission rate risks to acceptable levels as determined by the Board of Directors and within the guidelines issued by SAMA.

The Board of Directors has established levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors has 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 gap within the established limits.

As part of its asset and liability management the Bank uses derivatives for hedging purposes in order to adjust its own exposure to currency and commission rate risks. This is generally achieved by hedging specific transactions as well as strategic hedging against overall statement of financial position exposures. Strategic hedging, other than portfolio hedges for commission rate risk, do not qualify for special hedge accounting and related derivatives are accounted for as held for trading.

The Bank uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks. In addition, the Bank uses commission rate swaps and commission rate futures to hedge against the commission rate risk arising from specifically identified fixed commission-rate exposures.

The Bank also uses commission rate swaps to hedge against the cash flow risk arising on certain floating rate exposures. In all such cases, the hedging relationship and objective, including details of the hedged items and hedging instrument are formally documented and the transactions are accounted for as fair value hedges.

The tables below summarise the positive and negative fair values of derivative financial instruments, together with the notional amounts, analysed by the term to maturity and monthly average. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year-end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Bank's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor market risk.

Notes to the Financial Statements

At 31st December 2020

12. Derivatives (continued)

				2020 SAR'000 Notional amount by term to maturity			
Derivative financial instruments	**Positive fair value**	**Negative fair value**	**Total notional amount**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**
- held for trading							
Commission rate swaps	**242,114**	**(244,476)**	**8,194,751**	**-**	**-**	**2,523,146**	**5,671,605**
Currency swaps	**-**	**-**					
Commission rates futures and options	**42,211**	**(42,229)**	**1,874,028**	**-**	**86,969**	**1,787,059**	**-**
Forward foreign exchange contracts	**201**	**(201)**	**726,430**	**126,440**	**599,990**	**-**	**-**
- held as fair value hedges							
Commission rate swaps - loans	**420**	**(37,373)**	**820,302**	**-**	**-**	**445,568**	**374,734**
Commission rate swaps - deposits	**45**	**(299)**	**1,589,831**	**-**	**1,142,855**	**446,976**	**-**
	284,991	**(324,578)**	**13,205,342**	**126,440**	**1,829,814**	**5,202,749**	**6,046,339**

				2019 SAR'000 Notional amount by term to maturity			
Derivative financial instruments	Positive fair value	Negative fair value	Total notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years
- held for trading							
Commission rate swaps	139,069	(140,424)	8,805,662	-	-	2,987,283	5,818,379
Currency swaps	398	(402)	233,261	-	-	233,261	-
Commission rates futures and options	19,857	(19,859)	2,496,920	-	-	1,291,230	1,205,690
Forward foreign exchange contracts	99	(813)	766,875	88,443	661,776	16,656	-
- held as fair value hedges							
Commission rate swaps - loans	422	(14,000)	854,511	-	-	479,725	374,786
Commission rate swaps - deposits	1,114	(241)	3,252,136	-	2,801,891	450,245	-
	160,959	(175,739)	16,409,365	88,443	3,463,667	5,458,400	7,398,855

Notes to the Financial Statements

At 31st December 2020

12. Derivatives (continued)

The table below shows a summary of hedged items and portfolios, the nature of the risk being hedged, the hedging instrument and its fair value.

	2020 SAR'000					
Description of hedged items	**Fair value**	**Hedge inception value**	**Risk**	**Hedging instrument**	**Positive fair value**	**Negative fair value**
Commission rate swaps - loans	**(36,953)**	**820,302**	Fair Value	Commission Rate Swap	**420**	**(37,373)**
Commission rate swaps - deposits	**(254)**	**1,589,831**	Fair Value	Commission Rate Swap	**45**	**(299)**

	2019 SAR'000					
Description of hedged items	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
Commission rate swaps - loans	(13,578)	854,511	Fair Value	Commission Rate Swap	422	(14,000)
Commission rate swaps - deposits	873	3,252,136	Fair Value	Commission Rate Swap	1,114	(241)

13. Due to banks and other financial institutions

	2020 SAR'000	2019 SAR'000
Current accounts	**46,191**	26,460
Money market deposits	**2,274,524**	552,009
	2,320,715	578,469

Money market placements include profit free deposits from SAMA with tenures ranging from 1 to 4.75 years in order to offset the modification losses that the Bank is expected to incur in deferring the payments as disclosed in note 33.

The above include Shariah based balances as follows:

	2020 SAR'000	2019 SAR'000
Murabaha placements	**202,991**	-

14. Customers' deposits

	2020 SAR'000	2019 SAR'000
Demand deposits	**11,951,324**	7,592,423
Saving accounts	**690,854**	90,049
Time deposits	**8,838,742**	13,773,492
Others	**887,451**	260,794
	22,368,371	21,716,758

The above include foreign currency deposits as follows:

	2020 SAR'000	2019 SAR'000
Demand	**1,275,898**	468,278
Time	**427,701**	618,227
Others	**8,636**	18,110
	1,712,235	1,104,615

Time deposits include deposits taken under Islamic based contracts, of SAR 6,807,484 and SAR 11,507,294 in 2020 and 2019, respectively.

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At 31st December 2020

14. Customers' deposits (continued)

The above include Shariah approved customer deposits as below

	2020 SAR'000	2019 SAR'000
Demand		
Murabaha	853,918	104,332
Time		
Murabaha	274,789	455,248
	1,128,707	559,580

15. Other liabilities

	2020 SAR'000	2019 SAR'000
Accrued interest derivatives	10,289	18,990
Withholding tax payables	8,833	8,258
Due to related parties (note 30)	46,060	20,803
Accrued expenses	50,178	61,130
VAT payable	3,702	1,065
End of service benefits (note 25)	50,242	45,204
Loss allowance on loan commitment and financial guarantee contract	179,517	174,209
Allowance for zakat	11,497	2,017
Deferred LC/LG fees	19,689	26,121
SADAD Payable	44,685	4,883
Bankers Cheques Payable	36,954	698
Deferred Loan Fees	39,549	28,409
Others	71,899	32,605
	573,094	424,392

16. Share capital

The authorised, issued and fully paid share capital at 31 December 2020 comprised 750 million shares of SAR 10 each. Basic and diluted earnings per share for the period ended 31 December 2020 is calculated on a weighted average basis by dividing the net income for the period by 750 million shares.

The ownership of the Bank's share capital is as follows:

	31 December 2020 %	31 December 2019 %
Gulf International Bank BSC	50%	50%
Public Investment Fund	50%	50%

17. Statutory reserve

In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve, after deducting losses brought forward, until this reserve equals the paid-up capital of the Bank.

Notes to the Financial Statements

At 31st December 2020

18. Commitments and contingencies

a) Legal proceedings

As at December 31, 2020, there were no significant legal proceedings outstanding against the Bank.

b) Capital commitments

As at December 31, 2020 the Bank had capital commitments of SAR 52.7 million (2019: SAR 60.2 million) in respect of property, equipment and intangible purchases.

c) Credit related commitments and contingencies

The primary purpose of these instruments is to ensure that funds are available to customers as required.

Guarantee and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

Documentary 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 generally collateralised by the underlying shipments of goods to which they relate, and therefore have significantly 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.

Commitments to extend credit represent the unused portion of authorisations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire or terminate without being funded.

i) The contractual maturity structure of the Bank's commitments and contingencies is as follows:

	2020 SAR'000 Notional amounts by term to maturity				
	Within 3 months	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Letters of credit	**1,030,317**	**446,215**	**1,417**	**-**	**1,477,949**
Letters of guarantee	**1,382,868**	**5,433,916**	**1,364,488**	**45,359**	**8,226,631**
Acceptances	**606,501**	**466,338**	**58,048**	**-**	**1,130,887**
Irrevocable commitments to extend credit	**-**	**-**	**700,000**	**619,666**	**1,319,666**
	3,019,686	**6,346,469**	**2,123,953**	**665,025**	**12,155,133**

	2019 SAR'000 Notional amounts by term to maturity				
	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	1,112,263	507,922	-	-	1,620,185
Letters of guarantee	1,241,442	4,679,690	2,229,310	45,660	8,196,102
Acceptances	184,340	47,803	98,796	-	330,939
Irrevocable commitments to extend credit	-	70,000	1,165,517	-	1,235,517
	2,538,045	5,305,415	3,493,623	45,660	11,382,743

The outstanding unused portion of commitments as at December 31, 2020 which can be revoked unilaterally at any time by the Bank, amounts to SAR 4,466 million (2019: 8,229 million).

Notes to the Financial Statements

At 31st December 2020

18. Commitments and contingencies (continued)

ii)The analysis of commitments and contingencies by counterparty is as follows:

	2020 SAR'000	2019 SAR'000
Corporate	**10,818,617**	10,053,696
Banks and other financial institutions	**1,336,516**	1,329,047
	12,155,133	11,382,743

19. Special commission income and expense

	2020 SAR'000	For the period from 3rd April 2019 to 31 December 2019 SAR'000
Special commission income		
Investments	**67,295**	57,854
Due from banks and other financial institutions	**66,261**	125,738
Loans and advances	**552,785**	597,447
	686,341	781,039

	2020 SAR'000	For the period from 3rd April 2019 to 31 December 2019 SAR'000
Special commission expense		
Due to banks and other financial institutions	**4,489**	8,116
Lease liabilities	**12,298**	2,077
Customers' deposits	**208,446**	371,199
	225,233	381,392
Special commission income, net	**461,108**	399,647

The breakup of special commission income from Shariah products is as follows:

	2020 SAR'000	For the period from 3rd April 2019 to 31 December 2019 SAR'000
Investments		
Amortised Cost		
Sukuks	**56,893**	434,473
Due from banks and other financial institutions		
Murabaha	**3,378**	5,505
Loans and advances		
Murabaha	**374,202**	511,361
Total special commission income	**434,473**	555,470

Notes to the Financial Statements
At 31st December 2020

19. Special commission income and expense (continued)

The breakup of special commission expense from Shariah products is as follows:

	2020 SAR'000	For the period from 3rd April 2019 to 31 December 2019 SAR'000
Due to banks and other financial institutions		
Murabaha	**124**	-
Customer deposits		
Murabaha	**139,542**	329,358
Total special commission expense	**139,666**	329,358

20. Fee and commission income and expenses

	2020 SAR'000	For the period from 3rd April 2019 to 31 December 2019 SAR'000
Fees and commission income		
Letters of credit	**34,686**	18,516
Letters of guarantee	**43,827**	27,049
Other banking services	**19,675**	15,391
	98,188	60,956
Fees and commission expenses		
Bank charges and commission	**(3,112)**	(2,241)
Other fees and commission expenses	**(830)**	(1,362)
	(3,942)	(3,603)
Fees and commission income, net	**94,246**	57,353

	2020 SAR'000	For the period from 3rd April 2019 to 31 December 2019 SAR'000
Point in time:		
Other banking services	**14,208**	10,143
Over time:		
Trade finance	**78,513**	45,565
Fees on credit facilities	**5,467**	5,248
Total	**98,188**	60,956

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21. Salaries and employees' related expenses

The following table summarises the Bank's employee categories defined in accordance with SAMA's rules on compensation practices and includes the total amounts of fixed and variable compensation paid to employees during the year ended December 31, 2020, and the forms of such payments.

	2020			
Category	**Number of employees**	**Fixed compensation SAR 000**	**Variable compensation SAR 000**	**Total SAR'000**
Senior executives requiring SAMA no objection	**18**	**14,990**	**108**	**15,098**
Employees engaged in risk taking activities	**103**	**42,071**	**196**	**42,267**
Employees engaged in control functions	**163**	**37,786**	**4,448**	**42,234**
Other employees	**310**	**74,217**	**1,779**	**75,996**
	594	**169,064**	**6,531**	**175,595**
Outsourced employees	**206**	**29,314**	**-**	**29,314**
	800	**198,378**	**6,531**	**204,909**
Variable compensation accrued				**17,626**
Other employee related benefits				**41,729**
Total salaries and employee related expenses per financial statements				**264,264**

	For the period from 3rd April 2019 to 31st December 2019			
Category	Number of employees	Fixed compensation SAR 000	Variable compensation SAR 000	Total SAR'000
Senior executives requiring SAMA no objection	18	16,923	78	17,001
Employees engaged in risk taking activities	95	38,418	128	38,546
Employees engaged in control functions	132	26,502	829	27,331
Other employees	323	43,261	2,157	45,418
Sub-Total	568	125,104	3,192	128,296
Outsourced employees	150	21,491	-	21,491
	718	146,595	3,192	149,787
Variable compensation accrued				24,749
Other employee related benefits				12,854
Total salaries and employee related expenses per financial statements				187,390

Other employee related benefits include medical insurance, recruitment expenses, end of service benefits and other employee related expenses.

22. Other general and administrative expenses

	2020 SAR'000	For the period from 3rd April 2019 to 31st December 2019 SAR' 000
Repair and maintenance	**48,763**	28,893
Advertising	**20,304**	16,473
Managed services	**10,676**	4,625
Legal, consultancy & statutory fees	**14,353**	13,602
Communication & data information services	**18,623**	9,274
VAT expenses	**15,235**	8,544
Depositors' protection scheme expenses	**8,700**	6,365
Directors' remuneration (note 30)	**3,493**	4,062
Others	**28,320**	23,459
	168,467	115,297

Notes to the Financial Statements

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23. Zakat

The provision of Zakat liability is estimated based on the results of operations of the Bank for the period ended and the financial position at 31 December 2020.The Bank has accrued Zakat liability of SAR 11,498 thousand for the period ended 31 December 2020 (31 December 2019:2,017)

The Bank has filled Zakat declaration with General Authority of Zakat and Tax (GAZT) for the period from 3rd April 2019 to 31st December 2019. However, no assessment has been raised by GAZT.

24. Cash and cash equivalents

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

	2020 SAR'000	2019 SAR'000
Cash and balances with SAMA (excluding statutory deposit)	**7,826,927**	7,255,380
Due from banks and other financial institutions with original maturities of three months or less	**1,267,331**	1,448,087
	9,094,258	8,703,467

25. End of service benefits

The Bank operates an End of Service Benefit Plan for its employees based on the prevailing Saudi Labor Laws. Accruals are made in accordance with the actuarial valuation under projected unit credit method while the benefit payments obligation is discharged as and when it falls due.

The amounts recognised in the statement of financial position and movement in the obligation during the period based on its present value are as follows:

	2020 SAR'000	2019 SAR'000
At the beginning of the year/period	**45,204**	41,261
Charge for the year/period	**8,527**	8,422
Interest cost during the year/period	**1,461**	1,993
Benefits paid during the year/period	**(3,654)**	(3,114)
Unrecognised actuarial gain	**(1,296)**	(3,358)
At the end of the year/period	**50,242**	45,204

a) Charge for the period

	2020 SAR'000	For the period from 3rd April 2019 to 31st December 2019 SAR' 000
Current service cost	**8,527**	8,422
Interest cost	**1,461**	1,993
	9,988	10,415

b) Re-measurement recognised in Other comprehensive income

	2020 SAR'000	For the period from 3rd April 2019 to 31st December 2019 SAR' 000
Gain from change in financial assumptions	**15**	28
Gain from change in demographic assumptions	**-**	5
Gain from change in experience assumptions	**1,281**	3,325
	1,296	3,358

Notes to the Financial Statements

At 31st December 2020

25. End of service benefits (continued)

c) Principal actuarial assumptions (in respect of the employee benefit scheme)

	2020	2019
Discount rate	**2.35%**	3.05%
Expected rate of salary increase	**1.95%**	2.65%
Normal retirement age	**60 years**	60 years

Assumptions regarding future mortality are set based on actuarial advice in accordance with the published statistics and experience in the region.

d) Sensitivity of actuarial assumptions

The table below illustrates the sensitivity of the Defined Benefit Obligation valuation as at December 31, 2020 to the discount rate (2.35%), salary escalation rate (1.95%), withdrawal assumptions and mortality rates.

	SAR'000		
2020	**Impact on defined benefit obligation**		
Base Scenario	**Change in assumption**	**Increase in assumption**	**Decrease in assumption**
Discount rate	**0.5%**	**(2,641)**	**2,875**
Expected rate of salary increase	**0.5%**	**2,871**	**(2,663)**
Normal retirement age	**1 year**	**(2,874)**	**(2,642)**

	SAR'000		
2019	Impact on defined benefit obligation		
Base Scenario	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.5%	(2,368)	2,579
Expected rate of salary increase	0.5%	2,577	(2,387)
Normal retirement age	1 year	37	(18)

The above sensitivity analysis is based on a change in an assumption keeping all other assumptions constant.

The following payments are expected against the defined benefits liability in future years:

	2020 SAR'000	2019 SAR'000
Within the next 12 months (next annual reporting period)	**2,824**	3,066
Between 2 and 5 years	**16,912**	15,115
Beyond 5 years up to 10 years	**35,668**	31,428
Total expected payments	**55,404**	49,609

The average duration of the defined benefits plan obligation at 31 December 2020 is 10.95 years (31 December 2019: 10.92).

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At 31st December 2020

26. Financial risk management

a) Credit Risk

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles. The Board has appointed the Board Risk Policy Committee (BRPC) which has the responsibility to monitor the overall risk process within the bank. The BRPC has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits.

The Management Risk Committee is responsible for managing risk decisions and monitoring risk levels. Credit decisions are made by the Management Credit Committee. The Bank manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. Disciplined processes are in place at both the business unit and corporate level that are intended to ensure that risks are accurately assessed and properly approved and monitored. Formal credit limits are applied at the individual transaction, counterparty, country and portfolio levels. Overall exposures are also evaluated to ensure a broad diversified credit risk exposure.

The credit management process involves the monitoring of concentrations by product, industry, single obligor, risk grade and geography, and the regular appraisal of counterparty credit quality through the analysis of qualitative and quantitative information. The bank assesses the probability of default of counterparties using internal rating tools. Also, the bank uses the external ratings, of the major rating agency, where available.

The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The bank's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are monitored daily. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances and limiting the duration of exposure. In certain cases, the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk. The bank's credit risk for derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation, and to control the level of credit risk taken, the bank assesses counterparties using the same techniques as for its lending activities.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or 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 risk 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 lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business. It also takes security when appropriate. The Bank also seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. The Bank regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practice.

The debt securities included in the investment portfolio are mainly sovereign risk. Analysis of investments by counterparty is provided in note 6. For details of the composition of loans and advances refer to note 7. Information on credit risk relating to derivative instruments is provided in note 12 and for commitments and contingencies in note 18.

Notes to the Financial Statements

At 31st December 2020

26. Financial risk management (continued)

26.1 Concentration of risks of financial assets with credit risk exposure and financial liabilities.

a) Geographical concentration

	2020 SAR'000					
	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Total
Assets						
Balance with SAMA	8,889,568	-	-	-	-	8,889,568
Due from banks and other financial institutions						
Current accounts	5,847	256,121	66,027	158,985	-	486,980
Money market placements	675,305	105,046	-	-	-	780,351
Investments, net						
Held as amortised cost	2,566,536	-	-	-	-	2,566,536
Held as FVOCI	370,052	-	-	-	-	370,052
Held as FVTPL	224,465	-	-	-	-	224,465
Positive fair value of derivatives						
Held for trading	177,687	106,839	-	-	-	284,526
Held as fair value hedges	3	462	-	-	-	465
Loans and advances, net						
Overdraft	759,798	-	-	-	-	759,798
Commercial loans	17,295,377	-	-	-	-	17,295,377
Retail loans	706,543	-	-	-	-	706,543
Other assets	58,703	20,418	36	-	-	79,157
Total	31,729,884	488,886	66,063	158,985	-	32,443,818
Liabilities						
Due to banks and other financial institutions						
Current accounts	1,438,503	34,044	2,454	36	-	1,475,037
Money market deposits	170,603	675,075	-	-	-	845,678
Negative fair value of derivatives						
Held for trading	29,963	256,942	-	-	-	286,905
Held as fair value hedges		37,673	-	-	-	37,673

Notes to the Financial Statements

At 31st December 2020

26. Financial risk management (continued)

26.1 Concentration of risks of financial assets with credit risk exposure and financial liabilities (continued)

a) **Geographical concentration** (continued)

	2020 SAR'000					
	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Total
Customers' deposits						
Demand	12,721,959	28,081	-	-	-	12,750,040
Time	7,837,683	-	1,001,058			8,838,741
Saving	690,845	-	-	-	-	690,845
Others	88,745	-	-	-	-	88,745
Lease liabilities	213,278	-	-	-	-	213,278
Other liabilities	156,138	1	20	-	-	156,159
Total liabilities	23,347,717	1,031,816	1,003,532	36	-	25,383,101
Commitments and contingencies						
Letters of credit	1,115,278	-	-	-	362,671	1,477,949
Letters of guarantee	3,923,167	1,902,875	364,706	748,034	1,287,849	8,226,631
Acceptances	1,013,316	-	-	-	117,571	1,130,887
Irrevocable commitments to extend credit	1,319,666	-	-	-	-	1,319,666
Maximum Credit exposure (stated at credit equivalent amounts)						
Commitments and contingencies						
Letters of credit	223,481				72,534	296,015
Letters of guarantee	2,358,638	940,049	182,546	276,701	644,496	4,402,430
Acceptances	1,013,315				117,571	1,130,886
Irrevocable commitments to extend credit	654,088					654,088

Notes to the Financial Statements

At 31st December 2020

26. Financial risk management (continued)

26.1 Concentration of risks of financial assets with credit risk exposure and financial liabilities (continued)

a) Geographical concentration (continued)

	2019 SAR'000					
	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Total
Assets						
Balance with SAMA	8,200,027	-	-	-	-	8,200,027
Due from banks and other financial institutions						
Current accounts	2,754	80,056	126,398	59,483	-	268,691
Money market placements	575,437	603,959	-	-	-	1,179,396
Investments, net						
Held as amortised cost	2,189,046	-	-	-	-	2,189,046
Held as FVOCI	381,079	-	-	-	-	381,079
Held as FVTPL	203,621	-	-	-	-	203,621
Positive fair value of derivatives						
Held for trading	86,058	73,365	-	-	-	159,423
Held as fair value hedges	-	1,536	-	-	-	1,536
Loans and advances, net						
Overdraft	325,308	-	-	-	-	325,308
Commercial loans	16,677,837	-	-	-	-	16,677,837
Retail loans	487,211	86	-	-	-	487,297
Other assets	44,921	39,617	13,486	-	-	98,024
Total	29,173,299	798,619	139,884	59,483	-	30,171,285
Liabilities						
Due to banks and other financial institutions						
Current accounts	9,171	17,181	74	34	-	26,460
Money market deposits	170,138	381,871	-	-	-	552,009
Negative fair value of derivatives						
Held for trading	28,795	132,703	-	-	-	161,498
Held as fair value hedges	-	14,241	-	-	-	14,241

Notes to the Financial Statements

At 31st December 2020

26. Financial risk management (continued)

26.1 Concentration of risks of financial assets with credit risk exposure and financial liabilities (continued)

a) Geographical concentration (continued)

	2019 SAR'000					
	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Total
Customers' deposits						
Demand	7,592,423	-	-	-	-	7,592,423
Time	12,760,849	-	1,012,643	-	-	13,773,492
Saving	90,049	-	-	-	-	90,049
Others	260,794	-	-	-	-	260,794
Lease liabilities	224,542	-	-	-	-	224,542
Other liabilities	146,715	20,803	-	-	-	167,518
Total liabilities	21,283,476	566,799	1,012,717	34	-	22,863,026
Commitments and contingencies						
Letters of credit	1,554,096	65,847	242	-	-	1,620,185
Letters of guarantee	4,052,553	2,733,814	384,660	699,036	326,039	8,196,102
Acceptances	330,939	-	-	-	-	330,939
Irrevocable commitments to extend credit	1,235,517	-	-	-	-	1,235,517
Maximum Credit exposure (stated at credit equivalent amounts)						
Commitments and contingencies						
Letters of credit	311,330	13,169	48	-	-	324,547
Letters of guarantee	2,414,695	1,368,665	192,330	349,725	163,019	4,488,434
Acceptances	316,206	14,733	-	-	-	330,939
Irrevocable commitments to extend credit	617,759	-	-	-	-	617,759

Notes to the Financial Statements

At 31st December 2020

26. Financial risk management (continued)

26.2 Credit quality analysis

1. The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

	2020			
	12-month ECL	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
	SAR '000			
Loans and advances to customers at amortised cost				
Grades 1-4: Low – fair risk	**13,266,138**	**41,708**	**-**	**13,307,846**
Grades 5-7: Watch list	**4,280,193**	**1,004,062**	**-**	**5,284,255**
Grades 8: Substandard	**-**	**-**	**620,617**	**620,617**
Grades 9: Doubtful	**-**	**-**	**172,637**	**172,637**
Grades 10: Loss	**-**	**-**	**361**	**361**
Carrying amount	**17,546,331**	**1,045,770**	**793,615**	**19,385,716**

	2019			
	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
	SAR '000			
Loans and advances to customers at amortised cost				
Grades 1-4: Low – fair risk	10,509,037	51,283	-	10,560,320
Grades 5-7: Watch list	5,233,997	1,093,584	472,895	6,800,476
Grades 8: Substandard	-	-	322,467	322,467
Grades 9: Doubtful	-	-	584,030	584,030
Grades 10: Loss	-	-	21,816	21,816
Carrying amount	15,743,034	1,144,867	1,401,208	18,289,109

	2020			
	12-month ECL	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
	SAR '000			
Debt investment securities at amortised cost				
Grades 1-4: Low – fair risk	**2,566,536**	**-**	**-**	**2,566,536**
Grades 5-7: Watch list	**-**			
Carrying amount	**2,566,536**	**-**	**-**	**2,566,536**

	2019			
	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
	SAR '000			
Debt investment securities at amortised cost				
Grades 1-4: Low – fair risk	2,151,760	-	-	2,151,760
Grades 5-7: Watch list	-	37,286		37,286
Carrying amount	2,151,760	37,286	-	2,189,046

Notes to the Financial Statements

At 31st December 2020

26. Financial risk management (continued)

26.2 Credit quality analysis

Amounts arising from ECL – Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the 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 taking into consideration both internal and external indicators and expert credit assessment and inclusion of forward-looking information.

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's quantitative modeling, the remaining lifetime PD is determined to have increased significantly. The Bank also considers all counterparties internally rated 2 and above, between 2- and 3+, between 3 and 4+, and 4 and below, to be significantly deteriorated where they have been downgraded 6 notches, 5 notches, 4 notches and 3 notches respectively since initial recognition, and where the current pricing has not been adjusted to reflect the new risk profile of the counterparty.

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in the probability of default (PDs) and qualitative factors, including whether the exposure has been watch-listed, whether the exposure is more than 30 days past due and as a backstop based on delinquency.

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).

Credit risk grades

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 judgement. 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.

The internal ratings map directly to the external rating grades used by the international credit rating agencies as follows:-

Internal rating grade	Internal classification	Fitch and Standard Poor's &	Moody's
Investment grade			
Rating grade 1	Standard	AAA	Aaa
Rating grade 2	Standard	AA	Aa
Rating grade 3	Standard	A	A
Rating grade 4	Standard	BBB	Baa
Sub-investment grade			
Rating grade 5	Standard	BB	Ba
Rating grade 6	Standard	B	B
Rating grade 7	Standard	CCC	Caa
Classified			
Rating grade 8	Substandard	CC	Ca
Rating grade 9	Doubtful	C	C
Rating grade 10	Loss	D	-

Notes to the Financial Statements
At 31st December 2020

26. Financial risk management (continued)

26.2 Credit quality analysis (continued)

Each 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 typically involves use of the following data.

Non-retail exposures	Retail exposures	All exposures
- Information obtained during periodic review of customer files - e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality management, and senior management changes. - Data from credit reference agencies, press articles, changes in external credit ratings - Quoted bond and credit default swap (CDS) prices for the borrower where available - Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities	- Internally collected data and customer behavior - e.g. utilisation of credit card facilities - Affordability metrics - External data from credit reference agencies including industry-standard credit scores	- Payment record – this includes overdue status as well as a range of variables about payment ratios - Utilisation of the granted limit - Requests for and granting of forbearance - Existing and forecast changes in business, financial and economic conditions

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 credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

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 liquidating collateral; or the borrower is past due more than 90 days on any credit obligation to the Bank. In assessing whether a borrower is in default, the Bank considers both qualitative factors such as breaches of covenants and quantitative factors such as overdue status and non-payment on another obligation of the same issuer to the Bank.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Bank for regulatory capital purposes.

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 advice from the Chief Economist and consideration of a variety of external actual and forecast information, the Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the Kingdom and selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

Notes to the Financial Statements
At 31st December 2020

26. Financial risk management (continued)

26.2 Credit quality analysis (continued)

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at December 31, 2020 included the following ranges of key indicators.

Saudi Arabia	2021	2022	2023
Base 50%	Year 1	Year 2	Year 3
GDP (%)	(0.2)	3.2	3.7
Surplus (% of GDP)	(10.8)	(9.05)	(8.85)
Positive 15%			
GDP (%)	0.8	4.2	4.7
Surplus (% of GDP)	(9.8)	(8.05)	(7.85)
Negative 35%			
GDP (%)	(1.2)	2.2	2.7
Surplus (% of GDP)	(11.8)	(10.05)	(9.85)

The Bank has identified economic factors such as fiscal balances and GDP growth in Kingdom of Saudi Arabia as well as the views of the Chief Economist. Given the nature of the Banks' exposures and availability of historical statistically reliable information, the Bank derives the point-in-time (PIT) probability of default (PD) using the through-the-cycle (TTC) for each rating category. The Bank uses the Vasicek model to link the TTC PDs with forward looking economic factors to drive PIT PD estimates for each rating category. The Vasicek model takes into consideration forward looking economic forecasts under three scenarios (base case, negative case, and positive case), historical economic data, the asset correlation of each rating category (as per the Basel IRB economic capital formula), and TTC PDs for deriving PIT PDs. The relationship between the economic factors and default and loss rates have been developed using internal historical data and relevant external market data.

Consideration due to Covid-19

The Bank has updated its forward-looking variables (key economic drivers), refer above table. As at 31 December 2020, the scenario assumptions are updated to reflect the current situation of Covid-19. This included an assessment of the support of the Government's actions, the response of business and customers (such as repayment deferrals). These are considered in determining the length and severity of the forecast economic downturn. Probability weighting of each scenario is determined by management considering the risks and uncertainties surrounding the base case economic scenario. The key consideration for probability weightings in the current period is the continuing impact of Covid-19.

The table below shows the sensitivity of change in economic indicators to the ECL computed under three different scenarios used by the Bank.

	Probability	Debt instrument at Amortised Cost	Loans and advances	Financial guarantees	Letter of credit	Undrawn commitment
Base	50%	184	31,111	2,942	2,157	380
Positive	25%	144	27,208	2,540	1,761	286
Negative	25%	250	35,671	3,411	2,624	495

Measurement of ECL

The key input parameters into the measurement of ECL are the probability of default (PD), loss given default (LGD) and exposure at default (EAD). These parameters are derived from internally developed statistical models, other historical data using both internal and external factors, and also incorporate forward-looking information.

PD estimates are estimates at a certain date. For corporate exposures, corporate PD estimates are internally derived using the Bank's central default tendency for the Corporate portfolio, For financial institutions and sovereign government exposures, the PDs are based on external rating data of all global financial institutions rated by Standard & Poor's.

The PIT PD estimates are converted to PIT PDs using the Vasicek model. For exposures that have tenors in excess of one year and that are assessed on lifetime PDs, cumulative lifetime PDs are calculated by compounding the 12-month PIT PD.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties, based on historical data using both internal and external factors.

Notes to the Financial Statements

At 31st December 2020

26. Financial risk management (continued)

26.2 Credit quality analysis (continued)

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 amounts 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 is converted to balance sheet equivalents.

Subject to a maximum of 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics including instrument type, credit risk ratings and geographic location of the borrower.

The Bank calculates PIT PD estimates under three scenarios, a base case, negative case and positive case. A probability weighted ECL is then calculated by assigning probabilities, based on current market conditions, to each scenario.

Consideration due to COVID 19

The PD, EAD and LGD models are subject to the Bank's model risk policy that stipulates periodic model monitoring, periodic revalidation and defines approval procedures and authorities according to model materiality.

During the period, the bank has made following material changes in its ECL methodology to reflect the validation exercise undertaking by the Bank:

a) Transitioned from using PD estimates based on external data to PD estimates based on the Bank's own default experience
b) Aligned LGD estimates used to the LGD estimates published by Saudi Credit Bureau (SIMAH)

Credit-impaired loans

Credit-impaired loans and advances are graded 8 to 10 in the Banks' internal credit risk grading systems.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons including changing market conditions, and other factors not related to the current or potential credit deterioration of a customer. When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects a comparison of its remaining lifetime PD at the reporting date based on modified terms, with the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Bank renegotiates loans to customers in financial difficulties to maximise collection opportunities and minimise the risk of default. The Bank grants forbearance on a selective basis if there is evidence that the customer has made all reasonable efforts to honour the original contractual terms and the customer is expected to be able to meet the revised terms. Forbearance is a qualitative indicator of a significant increase in credit risk, and a customer would need to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired, or in default, or the PD has decreased such that the provision for credit-impairment reverts to being measured at an amount equal to the 12-month ECL.

Ageing of loans and advances (Past due but not impaired)

	2020 SAR'000		
	Commercial Loans	**Retail Loans**	**Total**
From 1 day to 30 days	**238,775**	**31,037**	**269,812**
Total Loans & advances	**238,775**	**31,037**	**269,812**

	2019 SAR'000		
	Commercial Loans	Retail Loans	Total
From 1 day to 30 days	504,664	26,813	531,477
Total Loans & advances	504,664	26,813	531,477

Notes to the Financial Statements

At 31st December 2020

26. Financial risk management (continued)

26.2 Credit quality analysis (continued)

Economic Sector risk concentration for the loans and advances and allowance for impairment are as follows:

	2020 SAR'000			
	Performing	**Credit-impaired**	**Allowance for impairment**	**Loans & advances, net**
Agriculture and Fishing	**1,052,259**	**-**	**-**	**1,052,259**
Manufacturing	**1,693,510**	**65,758**	**(29,469)**	**1,729,799**
Energy and Utilities	**152,868**	**-**	**-**	**152,868**
Building and Construction	**1,391,317**	**121,774**	**(117,315)**	**1,395,776**
Wholesale Retail Trade	**3,360,195**	**285,399**	**(108,945)**	**3,536,649**
Real Estate Business	**1,319,793**	**-**	**-**	**1,319,793**
Transportation	**1,017,271**	**283,214**	**(183,067)**	**1,117,418**
Services	**393,416**	**36,136**	**-**	**429,552**
Finance	**4,225,719**	**-**	**(168,746)**	**4,056,973**
Communication	**225,158**	**-**	**-**	**225,158**
Health Care	**72,473**	**-**	**-**	**72,473**
Petrochemical	**1,359,659**	**-**	**-**	**1,359,659**
Others	**1,606,574**	**-**	**-**	**1,606,574**
Retail	**721,889**	**1,334**	**(16,456)**	**706,767**
Total	**18,592,101**	**793,615**	**(623,998)**	**18,761,718**

	2019 SAR'000			
	Performing	Credit-impaired	Allowance for impairment	Loans & advances, net
Agriculture and Fishing	642,881	-	(2,555)	640,326
Manufacturing	1,497,693	68,389	(41,265)	1,524,817
Energy and Utilities	711,700	-	(842)	710,858
Building and Construction	1,325,303	369,196	(285,526)	1,408,973
Wholesale Retail Trade	3,851,568	312,363	(103,848)	4,060,083
Real Estate Business	1,954,849	-	(11,819)	1,943,030
Transportation	995,204	283,214	(1,695)	1,276,723
Services	361,193	-	(2,141)	359,052
Finance	2,976,246	-	(51,203)	2,925,043
Communication	292,137	123,177	(77,790)	337,524
Health Care	99,769	244,249	(199,333)	144,685
Petrochemical	1,089,904	-	(2,560)	1,087,344
Others	595,017	-	(10,330)	584,687
Retail	494,437	620	(7,760)	487,297
Total	16,887,901	1,401,208	(798,667)	17,490,442

Notes to the Financial Statements

At 31st December 2020

26. Financial risk management (continued)

26.2 Credit quality analysis (continued)

Collateral

The banks in the ordinary course of lending activities hold collaterals as security to mitigate credit risk in the loans and advances. These collaterals mostly include time, demand, and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. The collaterals are held mainly against commercial and consumer loans and are managed against relevant exposures at their net realisable values. 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

The amount of collateral held as security for loans that are credit impaired as at December 31, 2020 are as follows:

	2020 SAR'000	2019 SAR'000
Less than 50%	5,039	23,432
51-70%	-	-
More than 70%	229,022	124,299
	234,061	147,731

27. Market risk

Market risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as commission rates, foreign exchange rates, and equity prices. The Bank classifies exposures to market risk into either 'trading' or 'non-trading' or 'banking-book'.

a) Market risk-trading book

The Board has set limits for the acceptable level of risks in managing the trading book. In order to manage the market risk in trading book, the Bank periodically applies a VAR methodology to assess the market risk positions held and also to estimate the potential economic loss based on a set of assumptions and changes in market conditions.

A VAR methodology estimates the potential negative change in market value of a portfolio at a given confidence level and over a specified time horizon. The Bank uses simulation models to assess the possible changes in the market value of the trading book based on historical data. VAR models are usually designed to measure the market risk in a normal market environment and therefore the use of VAR has limitations because it is based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical distribution.

The VAR that the bank measures is an estimate, using a confidence level of 99% of the potential loss that is not expected to be exceeded if the current market positions were to be held unchanged for one day. The use of 99% confidence level depicts that within a one-day horizon, losses exceeding VAR figure should occur, on average, not more than once every hundred days.

The VAR represents the risk of portfolios at the close of a business day, and it does not account for any losses that may occur beyond the defined confidence interval. The actual trading results, however, may differ from the VAR calculations and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions.

To overcome the VAR limitations mentioned above, the bank also carries out stress tests of its portfolio to simulate conditions outside normal confidence intervals. The potential losses occurring under stress test conditions are reported regularly to the banks ALCO committee for their review.

Notes to the Financial Statements
At 31st December 2020

27. Market risk (continued)

The Bank's VaR related information for the year and period ended 31 December 2020 and 31 December 2019 are as below, respectively.

	2020 SAR'000			
	Foreign Exchange Rate	Special Equity commission risk	Price risk	Overall risk
VAR as at December 31, 2020	**0.2**	**0.0**	**9.1**	**9.3**
Average VAR for 2020	**0.2**	**0.0**	**13.9**	**14.1**

	2019 SAR'000			
	Foreign Exchange Rate	Special Equity commission risk	Price risk	Overall risk
VAR as at December 31, 2019	29	0	8.3	8.3
Average VAR for 2019	73	1.1	12.6	12.7

b) Market risk non-trading or banking book

Market risk on non-trading or banking positions mainly arises from the commission rate, foreign currency exposures and equity price changes.

i) Special commission rate risk

Special commission rate risk arises from the possibility that the changes in commission 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 hedging strategies to ensure maintenance of positions within the established gap limits.

The following depicts the sensitivity to a reasonable possible change in commission 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 commission rates on the net commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at December 31, 2020 and 2019, including the effect of hedging instruments. All the banking book exposures are monitored and analysed in US Dollars concentration and change. Sensitivities are disclosed in SAR thousands. Sensitivity of special commission income for +100/-100 bps increase in the basis of the US Dollar is SAR 64 million and SAR (64) million respectively for 2020 (SAR +/-63 million for 2019).

Commission sensitivity of assets, liabilities and off-balance sheet items

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 commission 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 commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or reprice in a given period. The Bank manages this risk by matching the repricing of assets and liabilities through risk management strategies.

Notes to the Financial Statements

At 31st December 2020

27. Market risk (continued)

	2020 SAR'000					
	Within 3 Months	3-12 months	1-5 years	Over 5 years	Non-commission bearing	Total
Assets						
Cash and balances with SAMA						
Cash in hand	-	-	-	-	34,490	34,490
Balances with SAMA	7,781,784	-	-	-	1,107,785	8,889,569
Due from Banks and other financial institutions						
Current accounts	-	-	-	-	486,981	486,981
Money market placements	750,333	-	30,017	-	-	780,350
Investments, net						
Held as FVTPL	-	-	-	-	224,465	224,465
Held at amortised cost	57,914	174,071	1,536,584	797,967	-	2,566,536
Held as FVOCI	-	-	-	-	370,052	370,052
Positive fair value of derivatives						
Held for trading	80	230	85,354	198,862	-	284,526
Held as fair value hedges	-	21	444	-	-	465
Loans and advances, net						
Over draft	759,798	-	-	-	-	759,798
Credit cards	12,248	-	-	-	-	12,248
Consumer loans	73,158	3,121	617,106	1,135	-	694,520
Commercial loans	16,019,904	1,275,248	-	-	-	17,295,152
Other assets	-	-	-	-	104,207	104,207
Total assets	25,455,219	1,452,691	2,269,505	997,964	2,327,980	32,503,359

	2020 SAR'000					
	Within 3 Months	3-12 months	1-5 years	Over 5 years	Non-commission bearing	Total
Liabilities						
Due to banks and other financial institutions						
Current accounts	-	-	-	-	46,191	46,191
Money market deposits	693,601	150,000	-	-	-	843,601
Customer deposits						
Demand	-	-	-	-	11,951,333	11,951,333
Saving	-	-	-	-	690,845	690,845
Time	5,338,797	3,499,945	-	-	-	8,838,742
Other	-	-	-	-	887,451	887,451
Negative fair value of derivatives						
Held for trading	80	231	83,108	203,486	-	286,905
Held as fair value hedges	-	156	5,534	31,982	-	37,672
Lease liabilities	-	3,805	55,491	153,982	-	213,278
Other liabilities	-	-	-	-	188,192	188,192
Share holders equity	-	-	-	-	7,059,153	7,059,153
Total Liabilities and shareholders' equity	6,032,478	3,654,137	144,133	389,450	20,823,165	31,043,363
Commission rate sensitivity - On Statement of financial position	19,422,742	(2,201,447)	2,152,372	608,513	(18,495,184)	1,459,996
Commission rate sensitivity - Off Statement of financial position	3,019,687	6,346,469	2,123,952	665,026	12,155,134	24,310,268
Total commission rate sensitivity gap	22,442,429	4,145,022	4,249,324	1,273,539	(6,340,050)	25,770,264
Cumulative commission rate sensitivity gap	22,442,429	26,587,451	30,836,775	32,110,314	25,770,264	137,747,233

Notes to the Financial Statements

At 31st December 2020

27. Market risk (continued)

	2019 SAR'000					
	Within 3 Months	3-12 months	1-5 years	Over 5 years	Non-commission bearing	Total
Assets						
Cash and balances with SAMA						
Cash in hand	-	-	-	-	43,814	43,814
Balances with SAMA	7,201,000	-	-	-	999,027	8,200,027
Due from Banks and other financial institutions						
Current accounts	-	-	-	-	268,691	268,691
Money market placements	1,149,378	-	30,018	-	-	1,179,396
Investments, net						
Held as FVTPL	-	-	-	-	203,621	203,621
Held at amortised cost	148,948	40,000	1,347,766	652,332	-	2,189,046
Held as FVOCI	-	-	-	-	381,079	381,079
Positive fair value of derivatives						
Held for trading	-	59	19,956	139,408	-	159,423
Held as fair value hedges	-	560	976	-	-	1,536
Loans and advances, net						
Over draft	325,308	-	-	-	-	325,308
Credit cards	10,588	-	-	-	-	10,588
Consumer loans	54,074	1,781	420,033	821	-	476,709
Commercial loans	15,548,100	698,454	431,283	-	-	16,677,837
Other assets	-	-	-	-	146,157	146,157
Total assets	24,437,396	740,854	2,250,032	792,561	2,042,389	30,263,232

	2019 SAR'000					
	Within 3 Months	3-12 months	1-5 years	Over 5 years	Non-commission bearing	Total
Liabilities						
Due to banks and other financial institutions						
Current accounts	-	-	-	-	26,460	26,460
Money market deposits	502,009	50,000	-	-	-	552,009
Customer deposits						
Demand	-	-	-	-	7,592,423	7,592,423
Saving	-	-	-	-	90,049	90,049
Time	11,968,364	1,733,744	71,384	-	-	13,773,492
Other	-	-	-	-	260,794	260,794
Negative fair value of derivatives						
Held for trading	754	23	19,843	140,878	-	161,498
Held as fair value hedges	-	240	1,111	12,890	-	14,241
Lease liabilities		3,805	55,491	165,246	-	224,542
Other liabilities	-	-	-	-	424,392	424,392
Share holders equity	-	-	-	-	7,506,879	7,506,879
Total Liabilities & shareholders' equity	12,471,127	1,787,812	147,829	319,014	15,900,997	30,626,779
Commission rate sensitivity - On Statement of financial position	11,966,269	(1,046,958)	2,102,203	492,227	(13,858,608)	1,749,049
Commission rate sensitivity - Off Statement of financial position	2,538,045	5,305,415	3,493,623	45,660	11,382,743	22,765,486
Total commission rate sensitivity gap	14,504,314	4,258,457	5,595,826	537,887	(2,475,865)	24,514,535
Cumulative commission rate sensitivity gap	14,504,314	18,762,771	24,358,597	24,896,484	22,420,619	104,942,785

Notes to the Financial Statements

At 31st December 2020

27. Market risk (continued)

The off statement of financial position gap represents the net notional amounts of derivative financial instruments, which are used to manage the commission rate risk.

The effective commission rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

ii) CURRENCY RISK

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Board has set limits on positions by currencies, which are monitored daily, and hedging strategies are also used to ensure that positions are maintained within the limits.

The table below shows the currencies to which the Bank has a significant exposure as at 31 December 2020 and 31 December 2019, respectively, 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; whereas a negative effect shows a potential net reduction in the statement of income.

2020

Currency Exposures	**Change in currency rate in %**	**Effect on net income (SAR'000)**
USD	**+5/-5**	**3,608 /(3,608)**
EURO	**+5/-5**	**2,565/ (2,565)**
GBP	**+5/-5**	**9/(9)**
JPY	**+5/-5**	**15/(15)**

2019

Currency Exposures	Change in currency rate in %	Effect on net income (SAR'000)
USD	+5/-5	311 / (311)
EURO	+5/-5	4,471 / (4,471)
GBP	+5/-5	11 / (11)
JPY	+5/-5	4 / (4)

iii) 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 intra-day positions, which are monitored daily. At the end of the period, the Bank had the following significant net exposures denominated in foreign currencies:

	2020 SAR '000 Long/(short)	2019 SAR '000 Long/(short)
US Dollar	**72,164**	6,216
Japanese Yen	**293**	89,411
Euro	**51,309**	212
Pound Sterling	**187**	84
Others	**3,255**	2,116
	127,208	98,039

Notes to the Financial Statements

At 31st December 2020

27. Market risk (continued)

iv) 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 due to reasonable possible change in equity indices, with all other variables held constant is as follows:

	2020	
Market Indices	**Change in Equity price %**	**Effect in SAR m**
Tadawul	**-5%**	**(18.24)**

	2019	
Market Indices	Change in Equity price %	Effect in SAR m
Tadawul	-5%	(18.66)

28. Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities.

Management monitors the maturity profile to ensure that adequate liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by Asset Liability Committee (ALCO). Daily reports cover the liquidity position of both the Bank and operating subsidiary and foreign branches. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% of total demand deposits and 4% of saving and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20% of its deposit liabilities, in the form of cash, gold, Saudi Government Development Bonds or assets, which can be converted into cash within a period not exceeding 30 days.

The Bank has the ability to raise additional funds through repo facilities with SAMA against Saudi Government Development Bonds up to 75% of the nominal value of bonds held.

Analysis of Financial Liabilities by remaining undiscounted contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2020 based on contractual undiscounted repayment obligations. As special commission payments up to contractual maturity are included in the table, totals do not match with the statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the balance sheet date to the contractual maturity date and do not take into account the effective expected maturities. The Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not affect the expected cash flows indicated by the Bank's deposit retention history.

Notes to the Financial Statements

At 31st December 2020

28. Liquidity risk (continued)

	2020 SAR '000					
	Within 3 months	**3-12 months**	**1-5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Liabilities						
Due to banks and other financial institutions						
Current accounts	-	-	-	-	46,191	46,191
Money market deposits	693,052	153,009	-	-	-	846,061
Customer deposits						
Demand	-	-	-	-	11,951,333	11,951,333
Saving	-	-	-	-	690,845	690,845
Time	6,907,781	2,050,487	360,256	-	-	9,318,524
Other	-	-	-	-	887,451	887,451
Negative fair value of derivatives						
- Held for trading	80	231	83,108	203,486	-	286,905
Held as fair value hedges	-	156	5,534	31,982	-	37,672
Lease liabilities	6,659	19,693	79,039	212,370	-	317,761
Other liabilities					156,159	156,159
	7,607,572	2,223,576	527,937	447,838	13,731,979	24,538,902

	2019 SAR '000					
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Liabilities						
Due to banks and other financial institutions						
Current accounts	-	-	-	-	26,460	26,460
Money market deposits	505,010	50,610	-	-	-	555,620
Customer deposits						
Demand	-	-	-	-	7,952,423	7,952,423
Saving					90,049	90,049
Time	12,537,345	1,520,348	90,249	-	-	14,147,942
Other	-	-	-	-	260,794	260,794
Negative fair value of derivatives						
- Held for trading	754	23	19,843	140,878	-	161,498
Held as fair value hedges	-	240	1,111	12,890	-	14,241
Lease liabilities	-	3,805	55,491	165,246	-	224,542
Other liabilities	-	-	-	-	167,518	167,518
Total Liabilities	13,043,109	1,575,026	166,694	319,014	8,497,244	23,601,087

Notes to the Financial Statements

At 31st December 2020

29. Fair values 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:

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

The fair values of on-balance sheet financial instruments are not significantly different from their carrying amounts included in the financial statements

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 or identical instrument that an entity can access at the measurement date;

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; and

Level 3: valuation techniques for which any significant input is not based on observable market data.

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 for financial instruments measured at fair value. 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.

			Fair value 2020 SAR '000		
	Carrying value	Level 1	Level 2	Level 3	Total
At 31 December 2020					
Financial assets measured at fair value					
Investments at FVTOCI	370,052	364,924	-	5,128	370,052
Investments at FVTPL	224,465	224,465	-	-	224,465
Positive fair value of derivative financial instruments	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	18,761,718	-	-	18,830,805	18,830,805
Cash and balance with SAMA	8,924,059	-	-	8,924,059	8,924,059
Due from banks and other financial institution	1,267,331	-	-	1,267,331	1,267,331
Other financial assets	104,207	-	-	104,207	104,207

Notes to the Financial Statements

At 31st December 2020

29. Fair values of financial instruments (continued)

			Fair value 2019 SAR '000		
	Carrying value	Level 1	Level 2	Level 3	Total
At 31 December 2019					
Financial assets measured at fair value					
Investments at FVTOCI	381,079	373,103	-	7,976	381,079
Investments at FVTPL	203,621	203,621	-	-	203,621
Positive fair value of derivative financial instruments	160,959	-	160,959	-	160,959
Financial assets not measured at fair value					
Investments at amortised cost	2,189,046	-	2,085,093	211,749	2,296,842
Loans and advances, net	17,490,442	-	-	17,451,048	17,451,048
Cash and balance with SAMA	8,243,841			8,243,841	8,243,841
Due from banks and other financial institution	1,448,087			1,448,087	1,448,087
Other financial assets	104,207	-	-	104,207	104,207

Cash and balances with SAMA, due from banks with maturity of less than 90 days and other short-term receivable are assumed to have fair values that reasonably approximate their corresponding carrying values due to the short-term nature.

			Fair value SAR '000		
	Carrying value	**Level 1**	**Level 2**	**Level 3**	**Total**
At 31 December 2020					
Financial liabilities measured at fair value					
Negative fair value of derivative financial instruments	**324,578**	**-**	**175,739**	**324,578**	**-**
Financial liabilities not measured at fair value					
Customers' deposits	**22,368,371**	**-**	**-**	**-**	**22,144,372**
Due to banks and other financial institution	**2,320,715**	**-**		**-**	**2,320,715**
Other financial liabilities	**188,192**	**-**		**-**	**188,192**

			Fair value SAR '000		
	Carrying value	Level 1	Level 2	Level 3	Total
At 31 December 2019					
Financial liabilities measured at fair value					
Negative fair value of derivative financial instruments	175,739	-	175,739	-	175,739
Financial liabilities not measured at fair value					
Customers' deposits	21,716,758	-	-	20,756,921	20,756,921
Due to banks and other financial institution	578,469			578,469	578,469
Other financial liabilities	163,518			163,518	163,518

Notes to the Financial Statements

At 31st December 2020

29. Fair values of financial instruments (continued)

Short-term customer deposits, due to banks with maturity of less than 90 days and other short-term payables are assumed to have fair values that reasonably approximate their corresponding carrying values due to the short-term nature.

Investment securities in Level 2 and Level 3 valued based on other valuation techniques comprise discounted cash flow techniques or other valuation methodologies.

No transfers out of the level 3 measurement classification occurred during the period ended December 31, 2019. Similarly, no transfers between level 1 and level 2 measurement classifications were made during the period ended December 31, 2020.

The Bank's financial instruments are accounted for under the historical cost method with the exception of trading securities, equity investment securities and derivative financial instruments, which are accounted for at fair value. The fair value represents 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. Differences therefore can arise between book values under the historical cost method and fair value estimates. Underlying the definition of fair value is the presumption that the Bank is a going concern without any intention or requirement to curtail materially the scale of its operation or to undertake a transaction on adverse terms.

Generally accepted methods of determining fair value include reference to quoted prices (level 1 measurement) or to the pricing prevailing for similar financial instruments (level 2 measurement) and the use of unobservable inputs in estimation techniques such as discounted cash flow analysis (level 3 measurement).

The valuation methodologies applied are outlined below.

29.1) Investment at FVTPL

The fair values of FVTPL are based on quoted prices (level 1).

29.2) Investment at FVOCI

The fair values of equity investment at FVOCI are based on quoted prices (level 1) or valuation techniques (level 3).

29.3) Loans and advances

The fair values (level 3) of loans on a floating interest rate basis are principally estimated at book value. The fair values (level 3) of impaired loans are estimated at the recoverable amount, measured as the present value of expected future cash flows discounted based on the Bank's weighted average discount rate. The fair values of fixed rate loans are estimated on a discounted cash flow basis utilising discount rates equal to prevailing market rates of interest in the respective currencies for loans of similar residual maturity and credit quality. The fair values (level 3) approximate the carrying values.

29.4) Other on-balance sheet items

The fair values of foreign exchange and derivative financial instruments are based on market prices, discounted cash flow techniques or option pricing models as appropriate. The fair values of all other on-balance sheet assets and liabilities approximate their respective book values due to their short-term nature.

29.5) Credit-related contingent items

There was no material fair value excess or shortfall in respect of credit-related off-balance sheet financial instruments, which include commitments to extend credit, standby letters of credit and guarantees, as the related future income streams reflected contractual fees and commissions actually charged at the balance sheet date for agreements of similar credit standing and maturity. Impairment provisions made in respect of individual transactions where a potential for loss has been identified are included in provisions for the impairment of loans and advances.

Reconciliation of Level 3 fair values

The following table shows reconciliation from the opening balances to the closing balances for Level 3 fair values.

	2020 SAR'000	2019 SAR'000
At the beginning of year / period	**7,976**	8,594
Gain included in OCI		
Net change in fair value (unrealised)	**(2,848)**	(618)
At the end of year / period	**5,128**	7,976

Sensitivity of the movement in the fair value of financial instruments in the level 3 category is assessed as not significant to other comprehensive income or total equity.

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30. Related party transactions

In the ordinary course of its activities, the Bank transacts business with related parties. Related party transactions are governed by limits set by the Banking Control Law and regulations issued by SAMA.

(i) The balances as at December 31 resulting from such transactions included in the financial statements are as follows:

	2020 SAR'000	2019 SAR'000
Major shareholder and their affiliates:		
Investments	224,465	203,621
Due from banks and other financial institutions	286,224	613,993
Due to banks and other financial institutions	887,924	576,262
Customers' deposits	4,874,761	3,276,366
Derivatives	8,889,104	11,294,939
Commitments and contingencies	986,393	1,059,585
Other assets	72,992	92,518
Other liabilities	46,060	39,793

(ii) Income and expenses pertaining to transactions with related parties included in the financial statements are as follows:

	2020 SAR'000	2019 SAR'000
Special commission income	3,293	6,191
Special commission expense	10,710	43,519
Fees and commission income and expense, net	4,889	328
Other income	-	2,472

(iii) The total amount of compensation paid to directors and key management personnel during the period is as follows:

	2020 SAR'000	2019 SAR'000
Short-term employee benefits	14,990	517
Post-employment benefits	885	147
Directors remuneration	3,493	4,062

31. 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 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 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 statement of financial position assets, commitments and notional amount of derivatives at a weighted amount to reflect their relative risk.

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At 31st December 2020

31. Capital Adequacy (continued)

	2020 SAR'000	2019 SAR'000
Risk-weighted exposure		
Credit risk RWA	**25,877,562**	24,422,063
Operational risk RWA	**951,591**	761,032
Market risk RWA	**527,183**	420,281
Total risk-weighted exposure	**27,356,336**	25,603,376
Regulatory capital base		
Tier I capital	**7,059,153**	7,506,879
Tier II capital	**184,737**	130,630
Total regulatory capital base	**7,243,890**	7,637,509
Capital adequacy ratios		
Tier I ratio	**25.80%**	29.32%
Total ratio	**26.48%**	29.83%

32. IBOR Transition (Interest Rate Benchmark Reforms)

A fundamental review and reform of major interest rate benchmarks is being undertaken globally. The International Accounting Standards Board ("IASB") is engaged in a two-phase process of amending its guidance to assist in a smoother transition away from IBOR.

Phase (1) - The first phase of amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures", focused on hedge accounting issues. The final amendments, issued in September 2019, amended specific hedge accounting requirements to provide relief from the potential effects of the uncertainty caused by IBOR reform. The amendments are effective from 1 January 2020 and are mandatory for all hedge relationships directly affected by IBOR reform. The bank has adopted these amendments along with the hedging relief for pre-replacement hedges.

Phase (2) – The second phase relates to the replacement of benchmark rates (IBOR) with alternative risk-free rates (RFR). The Phase 2 amendments are effective for annual periods beginning on or after 1 January 2021 and early application is permitted. Now that the Phase 2 Amendments have been finalised, the Bank will complete its assessment of the accounting implications of the scenarios it expects to encounter as the transition from IBORs to RFRs in order to accelerate its programmes to implement the new requirements. The Phase 2 Amendments introduce new areas of judgement, the Bank needs to ensure it has appropriate accounting policies and governance in place. For the additional disclosures, the Bank will have to assess and implement required updates in the financial reporting systems and processes to gather and present the information required.

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

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32. IBOR Transition (Interest Rate Benchmark Reforms) (continued)

The table below shows the Bank's exposure at the year end to significant IBORs subject to reform that have yet to transition to RFRs. These exposures will remain outstanding until the IBOR ceases and will therefore transition in future, e.g., the table excludes exposures to IBOR that will expire before transition is required.

In SAR 000 31 December 2020	Non-derivative financial assets - carrying value	Non-derivative financial liabilities carrying value	Derivatives Nominal amount
SAIBOR SAR (1 month)	1,466,307	-	374,806
SAIBOR SAR (3 months)	3,021,379	19,989	2,275,650
SAIBOR SAR (6 months)	2,005,705	-	26,104
SAIBOR SAR (12 months)	127,339	-	-
LIBOR USD (2 months)	-	-	-
LIBOR USD (3 months)	10,313	30,000	3,163,878
LIBOR USD (6 month)	91,950	-	1,820,250
Total	6,722,993	49,989	7,660,688
Cross currency swaps LIBOR GBP (3 months) to SAIBOR $ (3 months)	-	-	-
Total	6,722,993	49,989	7,660,688

33. Impact of Covid-19 on expected credit losses ('ECL") and SAMA programs

Private Sector Financing Support Program ("PSFSP")

In response to Covid-19, SAMA launched the Private Sector Financing Support Program ("PSFSP") in March 2020 to provide the necessary support to the Micro Small and Medium Enterprises ("MSME") as per the definition issued by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H. The PSFSP mainly encompasses the following programs:

- Deferred payments program;
- Funding for lending program;
- Facility guarantee program; and
- Point of sale ("POS") and e-commerce service fee support program.

As part of the deferred payments program launched by SAMA, the Bank was required to defer payments for a total of nine months (original deferment for six months was followed on by a further extension of three months) on lending facilities to eligible MSMEs. The payment reliefs were considered as short-term liquidity support to address the borrower's potential cash flow issues. The Bank effected the payment reliefs by extending the tenure of the applicable loans granted with no additional costs to be borne by the customer.

The accounting impact of these changes in terms of the credit facilities has been assessed and were treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in modification losses which have been presented as part of net financing income.

Further to the above, SAMA on 29 November 2020 extended the deferred payment program until March 31, 2021. The Bank has affected the payment reliefs by extending the tenure of the applicable loans granted with no additional costs to be borne by the customer. The accounting impact of these changes in terms of the credit facilities has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of arrangement.

As a result of the above program and related extensions, the Bank has deferred the payments of SAR 775,274 thousand on MSMEs portfolio and accordingly, has recognised total modification losses of SAR 26,376 thousand during the year. The total exposures against these customers amounted to SAR 1,991,094 thousand as at the year end.

As the situation has evolved since March 2020, the Bank has classified the customers, who received repayment deferrals under deferred payments program, into different categories of risk. Each of these categories are assigned a corresponding staging level based on whether SICR is deemed to have occurred because of the increased likelihood of a risk of default. The Bank has identified a proportion of deferral packages as higher credit risk and has identified that SICR event to have occurred on these customers.

If the balance of Covid-19 support packages in stage 1 move to stage 2, an additional ECL provisions would be provided during 2021 based on the credit facility - level assessment and the ability to repay amounts due after the deferral period ends.

Notes to the Financial Statements

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33. Impact of Covid-19 on expected credit losses ('ECL") and SAMA programs (continued)

In order to compensate the related cost that the Bank is expected to incur under the SAMA and other public authorities program, the Bank has received in aggregate SAR 532,019 thousand of profit free deposit in number of tranches from SAMA during the year ended 31 December 2020, with varying maturities. Management had determined based on the communication from SAMA, that the profit free deposits 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. This resulted in a total income of SAR 44,706 thousand, of which SAR 26,376 thousand has been recognised in the statement of income and SAR 18,330 thousand has been deferred. The management has exercised certain judgements in the recognition and measurement of this grant income. During the year ended 31 December 2020, SAR 9,059 thousand has been charged to the statement of income relating to unwinding of the day 1 income.

The Bank generally considered the deferral of payments in hardship arrangements as an indication of a SICR but the deferral of payments under the current Covid-19 support packages have not, in isolation, been treated as an indication of SICR.

The Bank continues to monitor the lending portfolios closely and reassess the provisioning levels as the situation evolves; however, management has recorded SAR 29.2 million of overlays to reflect potential further credit deterioration in credit risk levels of its customers.

If the balance of Covid-19 support customers in stage 1 move to stage 2, an additional ECL provisions would be provided during 2021 based on the credit facility - level assessment and the ability to repay amounts due after the deferral period ends.

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

In line with its monetary and financial stability mandate, SAMA injected an amount of fifty billion riyals in order to:

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

In this regard, during the year ended December 31, 2020, the Bank received SAR 948,463 thousand profit free deposit with one-year maturity. Management has determined based on the communication received from SAMA, that this government grant primarily relates to liquidity support. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in a total income of SAR 11,645 thousand, of which SAR 6,793 thousand has been recognised in the statement of income for the year ended 31 December 2020 and with the remaining amount deferred.

34. Comparative figures

According to clause 46 of the Bank's Articles of Association, the Bank's fiscal year is from 1st January to 31 December of each Gregorian year, and the first fiscal period was from the date of commercial registration (i.e. 3 April 2019) to 31 December 2019. Therefore, the comparative figures cover the period from 3 April 2019 to 31 December 2019 only.

Certain of the prior year amounts have been reclassified to the presentation in the current year.

	31 December 2019		
	Previously reported SAR'000	Reclass SAR'000	Currently reported SAR'000
Special Commission Income	904,779	(113,740)	781,039
Special Commission Expense	(505,132)	113,740	(381,392)
Salaries and employee-related expenses	(180,079)	(7,311)	(187,390)
Other general and administrative expenses	(122,608)	7,311	(115,297)

35. Subsequent events

Subsequent to year end, On 1 January 2021, the Bank acquired 100% of the issued shares in GIB Capital Company- A Saudi Closed Joint Stock Company, dealing as a principal and agent, underwriting, managing, arranging, advising and acting as custodian of financial securities, for a consideration of SAR 256.7 million. Due to this acquisition the Bank will be in a position to enter into business of financial securities business and reduce cost through economies of scale. The approval from the relevant authorities have been obtained, however, the related legal formalities have not yet been completed. There were no other significant events between the date of financial statements authorisation and date of statement of financial statements which requires adjustments / disclosure in these financial statements.

36. Board of Directors' approval

The financial statements were authorised for issue by the Board of Directors on 16th February 2021.

Basel 3 Pillar 3 Disclosures

As at 31st December 2020

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Basel 3 Pillar 3 Disclosures

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1. KM1: Key metrics

	SAR (thousands)	a 31-Dec-2020	b 30-Sep-2020	c 30-Jun-2020	d 31-Mar-2020	e 31-Dec-2019
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	7,059,153	7,271,211	7,340,018	7,328,852	7,506,879
1a	Fully loaded ECL accounting model					
2	Tier 1	7,059,153	7,271,211	7,340,018	7,328,852	7,506,879
2a	Fully loaded ECL accounting model Tier 1					
3	Total capital	7,243,890	7,479,975	7,544,770	7,516,971	7,637,509
3a	Fully loaded ECL accounting model total capital					
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	27,356,337	27,431,880	25,957,555	26,554,428	25,603,376
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	25.8%	26.5%	28.3%	27.6%	29.3%
5a	Fully loaded ECL accounting model Common Equity Tier 1 (%)					
6	Tier 1 ratio (%)	25.8%	26.5%	28.3%	27.6%	29.3%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)					
7	Total capital ratio (%)	26.5%	27.3%	29.1%	28.3%	29.8%
7a	Fully loaded ECL accounting model total capital ratio (%)					
	Additional CET1 buffer requirements as a percentage of RWA					
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.5%	2.5%	2.5%	2.5%	2.5%
9	Countercyclical buffer requirement (%)	0.1%	0.0%	0.1%	0.2%	0.2%
10	Bank G-SIB and/or D-SIB additional requirements (%)					
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	2.6%	2.5%	2.6%	2.7%	2.7%
12	CET1 available after meeting the bank's minimum capital requirements (%)	15.2%	16.0%	17.7%	16.9%	18.6%
	Basel III leverage ratio					
13	Total Basel III leverage ratio exposure measure	39,578,953	36,399,501	36,659,221	38,140,430	36,926,376
14	Basel III leverage ratio (%) (row 2 / row 13)	17.8%	20.0%	20.0%	19.2%	20.3%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a / row13)					
	Liquidity Coverage Ratio					
15	Total HQLA	10,953,781	7,823,272	9,540,145	10,065,578	10,090,462
16	Total net cash outflow	5,311,704	3,755,417	4,699,361	2,859,857	3,965,805
17	LCR ratio (%)	206.2%	208.3%	203.0%	351.9%	254.4%
	Net Stable Funding Ratio					
18	Total available stable funding	20,479,075	19,812,255	19,917,312	21,138,369	20,619,425
19	Total required stable funding	13,564,882	12,935,729	12,154,483	12,070,230	12,194,922
20	NSFR ratio	150.9%	153.1%	163.8%	175.1%	168.8%

Basel 3 Pillar 3 Disclosures

As at 31st December 2020

2. OVA - Bank risk management approach

a) Business model and risk profile

The activities of the Gulf International Bank- Saudi Arabia (the Bank) were initially carried out as a foreign branch of Gulf International Bank B.S.C., a Bahraini shareholding company incorporated in the Kingdom of Bahrain.

Effective from 27 Rajab 1440 (corresponding to 3rd April 2019), the foreign branch was converted to a Saudi Closed Joint Stock Company with the same commercial registration number (2052001920).

The Bank is principally engaged in the provision of wholesale, commercial and retail banking services. The Bank also provides customers with non-interest based banking products which are approved and supervised by an independent Shariah Board. The Bank is organised into following main operating segments:

- Wholesale banking: the provision of wholesale commercial financing and other credit facilities for corporate and institutional customers.
- Treasury: the provision of a broad range of treasury and capital market products and services to corporate and financial institution clients, money market, proprietary investment and trading activities and the management of the Bank's balance sheet, including funding.
- Consumer Banking: the provision of retail banking services.

The Bank adopts a holistic view of risks by understanding risks on an enterprise wide basis analysed through a top-down (risk aggregation) and a bottom-up (risk decomposition) approach. Risk aggregation takes a portfolio view of risks aggregated across the Bank's business units taking due consideration of the portfolio effects and correlation of risks prior to determination of the management approach to each single risk. This approach provides guidance to allow balancing risk and reward optimally. Moreover, Risk decomposition ensures a comprehensive identification and prioritisation of all material risks and the definition and implementation of risk policies and processes that control daily decision making throughout the Bank. This approach enables employees to make the right risk-return trade-offs in day-to-day activities.

Overall risk management strategy approved by the Board of Directors (BoD) is based on the following three pillars:

Risk governance: defines the roles and responsibilities with respect to interaction among different stakeholders in the Bank;

Risk policies: include a range of policies encompassing all risk-taking businesses, which are updated and reviewed regularly. These policies ensure institutionalisation of rules and conduct, delegation of authorities and decision rights, risk appetite and internal capital adequacy assessment and plan in accordance with applicable regulatory requirements; and

Risk practices: maintain an up to date risk register, carry regular portfolio reviews and ensure various Board and senior management level risk reporting.

b) The Risk Governance structure

The Bank has established a robust risk governance structure within the Bank's Risk Strategy to ensure that all material risks are managed and mitigated. The Bank maintains a prudent and disciplined approach to risk taking by upholding a well thought out Risk Appetite Statement, comprehensive set of risk management policies and processes which involve professionally qualified risk personnel with appropriate skills. Below are the principal elements of the Bank's risk governance structure:

i. The Board of Directors (BoD) are responsible for the strategic direction of the Bank and for oversight of the bank's affairs including identifying, assessing, communicating and monitoring risks on an enterprise-wide basis, while striking a balance between the risk appetite and the business strategy of the Bank in line with the industry best practice and regulatory expectations;

ii. The BoD delegates some of its supervisory responsibilities to the Board Risk Policy Committee (BRPC) which assist the BoD in reviewing the risk profile of the Bank, establishing the Risk Management Framework and relevant controls, reviewing the risk appetite, policies, and overall limits and parameters within which the Bank conducts its business;

iii. At management level, the Bank has a dedicated Risk Management function independent of business units headed by the CRO, who reports to the CEO and is a member of the following committees:

- The Management Committee (MC), chaired by the Chief Executive Officer (CEO), which has the primary responsibility for sanctioning risk taking policies and activities within the tolerance defined by the Board;
- The Saudi Risk Management Committee (SRMC), chaired by the Chief Risk Officer (CRO), the Assets and Liabilities Committee (ALCO) chaired by the Chief Financial Officer (CFO), and the Operational Risk Committee (ORC) chaired by the CRO which assist the CEO in risk management oversight; and
- The Credit Committee which is responsible for approving credit applications within their delegated limits; and
- The Investment Committee which is responsible for reviewing the investment portfolio and approving potential investment opportunities applications within their delegated limits;

iv. From a control perspective, the process of risk management is facilitated through a set of independent functions i.e. Risk Management (Wholesale Credit Risk Management, Retail Risk Management, Operational Risk Management, and Information Security, Enterprise Risk Management and Analytics and Economics Units) and Balance Sheet Management (Liquidity Risk Management and Market Risk Management).

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2. OVA - Bank risk management approach (continued)

Wholesale Credit Risk Management is responsible for the active management of the Bank's Wholesale credit risk exposure and the monitoring of it in accordance with a well-defined credit risk appetite, limits and parameters. The Bank bases its decisions for an individual counterparty on a thorough analysis that includes considerations for Bank's exposure to that counterparty.

Retail Risk Management is responsible for the development and maintenance of an effective partnership with Retail Banking to ensure proper implementation of the Retail Credit Risk Policies including granting, rating, monitoring and collection policies. In doing so, the function ensures that the Bank's retail banking credit portfolio quality stays within the risk appetite of the Bank as well as complies with internal and regulatory Risk Compliance of product programs.

Operational Risk Management plays on-going active role in identifying, assessing, prioritising, managing and mitigating operational risk within the Bank in line with the Operational Risk Framework under the oversight of the Operational Risk Committee.

Information Security strives to safeguard the Bank against internal and external threats to its assets, intellectual property, computer systems, data and equipment through protecting the Bank's information assets for internal and external threats, whether deliberate or accidental, ensuring compliance with regulatory and industry standards and providing support for Disaster Recovery and Business Continuity.

Enterprise Risk Management and Analytics is responsible for maintaining the Bank's risk management policies, stress testing, framework and methodologies, providing input into setting the risk appetite of the Bank as well as monitoring adherence to internal limits/ triggers and compliance with ratios as instructed by regulators, in addition to maintaining alignment with the Bank's Risk Appetite.

Economics is an integral part of the risk governance structure as it is responsible for an effective risk management tool that feeds into shaping the Bank's overall portfolio. The function conducts reviews of industry segments and countries and provides input into the concentration limits by utilising recent economic data and industry reports available in the public domain and/ or issued by external rating or other agencies.

Balance Sheet Management ensures compliance with regulatory standards for capital management and market and liquidity risk by managing the implementation of the capital planning, capital management and capital allocation process, monitoring market risks, maintaining liquidity management and contingency funding strategies to ensure continued viability and funding of the Bank in a time of crisis in line with the limits set in the risk appetite, given GIB's profile of retail and wholesale deposits.

c) Channels to communicate, decline and enforce the risk culture

Effective Risk Management involves the strategic implementation of a clearly defined three lines of defence risk management framework in accordance with generally accepted best practices. This practice promotes risk culture and facilitates risk communication channels between Business and control functions. The three lines are as follows:

First Line of Defence: Business units - take risks and are responsible and accountable for their ongoing management. This includes identifying, assessing and reporting exposures taking into account risk appetite and Bank policies and controls;

Second Line of Defence: Oversight functions - includes independent risk management processes which monitor, report and oversee the business lines risk taking activities, assessing risks critically rather than purely carrying out a surveillance function. The second line also includes a compliance function which is independent of business lines and has direct access to the Board Audit Committee. The second line of defence also promotes a sound culture of risk management and compliance by supporting and training managers and employees in different areas of the business; and

Third Line of Defence: Independent Assurance - consists of an independent internal audit assurance function which is not involved in developing, implementing or operating the risk management framework. Its independence is enhanced by the fact that it reports to the Board Audit Committee.

The Bank's BoD and Management view risk culture as a critical component of the Bank's Enterprise-Wide Risk Management Framework. The Bank's corporate governance, risk management approach, compliance standards, policies and procedures, training activities, performance measures, and human resource management systems are critical to successfully embedding a sound risk culture within the Bank.

The key drivers for embedding risk culture within GIB include the following:

- Strong leadership, commitment and engagement across the organisation;
- Common understanding of the Risk Strategy, a well-defined Risk Appetite to set the boundaries for decision making;
- Strong communication among businesses, senior management and the BoD;
- Strong and independent Risk Management function;
- Incentives and disincentives for adhering to/ violating risk management processes and policies;
- Employee compensation aligned to take account of the Bank's risk-weighted performance; and
- Realistic and well understood performance targets.

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As at 31st December 2020

2. OVA - Bank risk management approach (continued)

d) The scope and main features of risk measurement systems

The Bank has implemented systems, processes, policies and methodologies allowing for timely and effective assessment and mitigation of potential risks. This aims to provide enterprise-wide Risk Management data in a consistent and timely manner.

Risk Capital

The Bank focuses on maintaining a strong capital base, in particular Tier 1 capital, as it represents the core capital. Strong capital base is vital to maintain investor, creditor and market confidence in the Bank's solvency and financial strength, maintain a sound external credit rating that is critical for the Bank's access to liquidity and for pricing of its long-term funding; and sustain the future development of the business.

The Bank manages its capital structure and makes adjustments to it taking account of changes in the macro-economic conditions and strategic business plans while basing the capital requirements on the Bank's risk profile. The key risks comprise of

a) Pillar 1 risks including credit risk, market risk and operational risk;

b) Risks not fully covered under Pillar 1 including residual risk arising from the use of credit risk mitigation and securitisation;

c) Pillar 2 risks including concentration risk, interest rate risk in the banking book, liquidity risk, strategic risk and reputation risk; and

d) Risk factors external to the Bank including risks which may arise from the regulatory, economic or business environment and which are not included in the above-mentioned risks.

Different methodologies are utilised to estimate the capital in line with industry best practices.

The Internal Capital Adequacy Assessment Process (ICAAP) incorporates a review and evaluation of risk management and capital relative to the risks to which the bank is exposed. The Bank's capital assessment has been developed around its economic capital framework which is designed to ensure that the bank has sufficient capital resources available to meet regulatory and internal capital requirements, even during periods of economic or financial stress. The capital assessment addresses all components of The Bank's risk management, from the daily management of more material risks to the strategic capital management of the Group.

In addition, in an attempt to integrate risk and business strategy, Risk adjusted return on capital (RAROC) is used as a measure to gauge how effectively a transaction or business unit is able to use capital to cover risk. The main functions of RAROC in the Bank is to measure the profitability of business units, transactions and customers on a risk adjusted basis, serve as a tool to compare the profitability of business segments on a like-for-like basis and thereby helps Management decide how much capital should be allocated to each business and aid in precise pricing of products and improves consistency in lending decisions.

Risk Rating and Scoring Models

The Bank monitors, manages and controls credit risk exposures based on an internal credit rating system that rates individual obligors based on a rating scale from 1 to 10, subject to positive (+) and negative (-) modifiers for rating grades 2 to 6. The internal credit rating is a measure of the credit-worthiness of a single obligor, based on an assessment of the credit risk relating to senior unsecured, medium-term, foreign currency credit exposure. The primary objectives of the internal credit rating system are the maintenance of a single uniform standard for credit quality measurement, and to serve as the primary basis for Board-approved risk parameters and delegated credit authority limits.

The internal credit rating system is used throughout the organisation and is inherent in all business decisions relating to the extension of credit. A rating is an estimate that exclusively reflects the quantification of the repayment capacity of the customer, i.e. the risk of customer default. The internal credit rating system also serves as a key input into the Bank's Risk-Adjusted Return on Capital (RAROC) performance measurement system. Ratings reflect a one-year time horizon, thereby requiring each customer to be reviewed and re-rated each year as part of the annual review cycle.

Value at Risk (VaR)

A key element in the Bank's market risk management framework is the estimation of potential future losses that may arise from adverse market movements. The Bank utilises Value-at-Risk (VaR) to estimate such losses. The VaR is derived from quantitative models that use statistical and simulation methods that take account of all market rates and prices that may cause a change in a position's value. These include interest rates, foreign exchange rates and equity prices, their respective volatilities and the correlations between these variables.

The VaR takes account of potential diversification benefits of different positions both within and across different portfolios. Consistent with general market practice, VaR is computed for all financial instruments for which there are readily available daily prices or suitable proxies. VaR is viewed as an effective risk management tool and a valuable addition to the non-statistically based limit structure. It permits a consistent and uniform measurement of market risk across all applicable products and activities. Exposures are monitored against a range of limits both by risk category and portfolio and are regularly reported to and reviewed by senior management and the Board of Directors.

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As at 31st December 2020

2. OVA - Bank risk management approach (continued)

Operational Risk Management Framework

Qualitative and quantitative methodologies and tools are used to identify and assess operational risk and to provide management with information for determining appropriate mitigating factors. These tools include a database of operational risk events categorised according to business lines and operational risk event types; a record of key risk indicators, which can provide an early warning of possible risk; and a risk and control assessment process to analyse business activities and identify operational risks related to those activities. The management of operational risk has a key objective of minimising the impact of losses suffered in the normal course of business (expected losses) and to avoid or reduce the likelihood of suffering a large extreme (unexpected) loss. The operational Risk Management Framework is managed through a workflow system (Risk Nucleus) that ensures that all major operational Risks / losses are appropriately assessed and managed or analysed for further escalation.

e) Process of Risk information reporting provided to the Board and Senior Management

The Bank has developed Management Information (MIS or reports) to facilitate risk awareness and support effective monitoring and decision-making at all levels of the Bank. The MIS helps the Bank's Management to focus on identification of risk issues, develop mitigation plans and monitor to the progress of corrective actions.

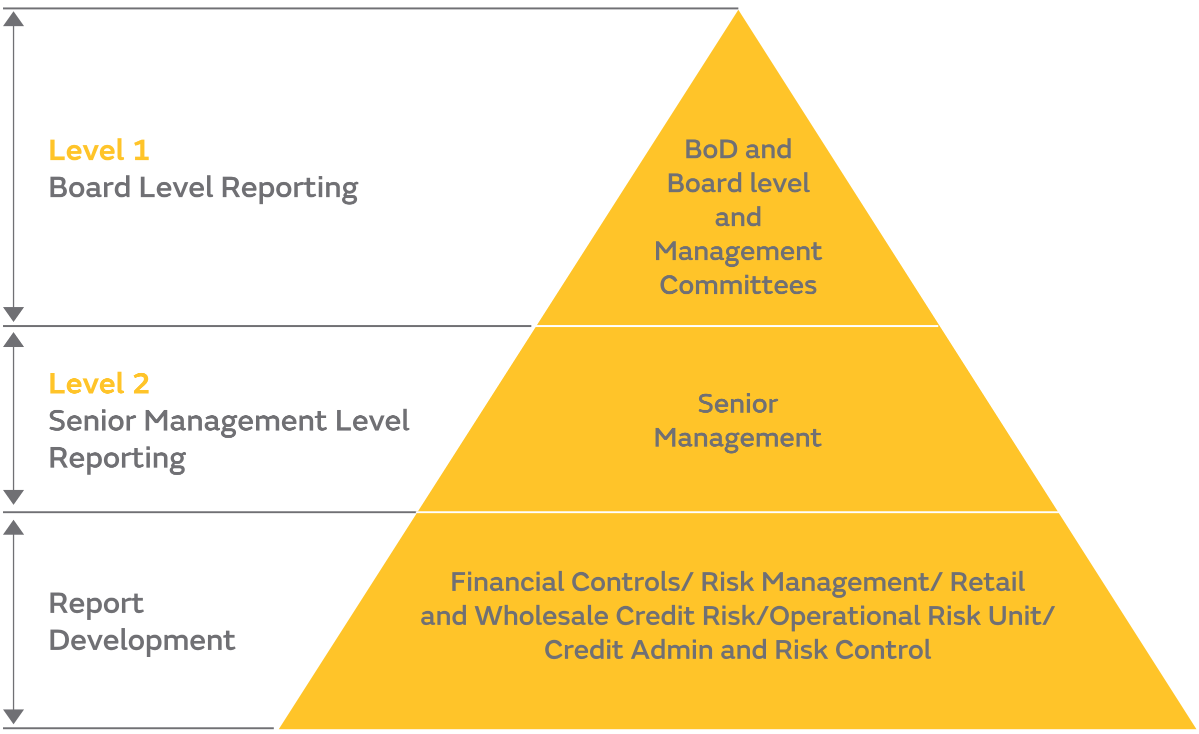
Relevant functions within the Bank produce risk MIS with the support of business or other support units (in terms of providing the necessary data inputs, loss information, results of their risk assessments etc.) for all material risk exposures to enable informed business decision making. In particular, the risk MIS aim to:

- Increase awareness of key risks across the Bank and improve adequacy of underlying control measures;
- Provide early-warning alert mechanisms to ensure that management is made aware of key risk areas of focus;
- Enable management to assess performance against policies, business plans and risk appetite by business, product types etc., including risk-reward considerations; and
- Reinforce GIB's strategic goals through the acceptance of risks consistent with its risk appetite.

The risk MIS are then presented at the following two reporting levels at the Bank:

a) Level 1 reporting to the Board of Directors and its committees; and

b) Level 2 reporting to the Bank's Senior Management.



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As at 31st December 2020

2. OVA - Bank risk management approach (continued)

Management Monitors Risk Appetite Metrics using Risk reports and Risk Dashboards. In addition to reporting to the Board and senior management, in case of breach in Regulatory Risk Appetite metrics, the Bank has process in place to take immediate steps to follow the thresholds stipulated by SAMA, by virtue of formulating an action plan and communicating the same to SAMA.

The Integrated Stress Testing framework is linked to the Risk Appetite and forms an integral part of the monitoring and review process. In addition, the Stress Test results are reviewed in light of the Risk Appetite and tolerance levels. Results are presented to the Board for information and the endorsement of any required corrective action.

f) Qualitative information on stress testing

The Bank has in place an integrated stress testing (IST) framework that assists the Bank in gaining an enhanced understanding of the potential stress impact of material risks and to assist in the development and identification of appropriate actions to improve sustainability and profitability given the Bank's exposure to such risks. This IST exercise is aligned to the Bank's overall risk profile and risk strategy.

The purpose of the Bank's IST is to achieve the following goals:

- Develop stress testing framework which is both, plausible and reasonable:
  - o The scenarios are applicable to the Bank and the market in which it operates;
  - o The results assist the Bank's Senior Management and the Board to develop the Bank's strategy in response to idiosyncratic stress events or potential adverse changes in the economic and regulatory environment;
  - o The scenarios reflect coverage of all material risk across the Bank;
  - o Secondary effects of stress scenarios are considered; for instance, the Bank considers how the impact of one stress event (i.e. Reputational Risk) may result in other risk areas (i.e. Liquidity Risk); and
  - o The results of stress tests provide a consolidated view of the overall stress testing impact at a Bank-wide level.
- IST framework is closely aligned with the Bank's risk management framework including Internal Capital Adequacy Assessment Process (ICAAP) and Recovery Planning (RP);
- Perform dynamic stress testing with a forward-looking approach covering a minimum period of three years projections;
- Cover both quantitative and qualitative aspects of the potential risks that the Bank foresees:
  - o Scenarios built on a logical narrative that describes how and why the event has been assumed to occur; and
  - o The financial impact of a stress scenario is calculated on Bank's income statement and balance sheet along with reasonable interpretation of results;

g) The strategies and processes to manage, hedge and mitigate risks

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future business development. The Bank manages its capital structure and makes adjustments to the structure taking account of changes in economic conditions and strategic business plans. The capital structure may be adjusted through the dividend payout or the issue of new shares.

Credit risk mitigation

The Bank uses a variety of credit risk mitigation techniques which contribute to risk diversification and credit protection. The different credit risk mitigation techniques such as collateral, guarantees, credit derivatives, netting agreements and covenants are used to reduce credit risk. Collateral items and guarantees which can be used for credit risk mitigation under the capital adequacy framework are referred to as eligible collateral. Only certain types of collateral and some issuers of guarantees are eligible for preferential risk weights for regulatory capital adequacy purposes.

Furthermore, the collateral management process and the terms in the collateral agreements have to fulfil the SAMA's prescribed minimum requirements (such as procedures for the monitoring of market values, insurance and legal certainty) set out in their capital adequacy regulations.

Moreover, The Bank's policy is to provide credit to its customers based on the strength of the customers' repayment capacity and not on the basis of the strength of the collateral. The Bank would take collateral and guarantees from third parties as a form of additional assurance to mitigate risks.

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As at 31st December 2020

2. OVA - Bank risk management approach (continued)

Market risk mitigation

The Bank adopts a Market Risk Management Framework to comply with the Market Risk Strategy that address the policies and guidelines for the key processes underlying the identification, assessment, measurement, monitoring reporting and control of market risk, including:

- Market risk planning and assessment to determine the nature and level of market risk exposure that the Bank is permitted to undertake in light of its strategy and risk appetite and maintains, among other things, a rigorous process of security selection and approval;
- Value-at-risk analysis to provide a comprehensive and consistent measure of the Bank's market risk exposure to adverse market movements;
- Limit management to monitor portfolio concentrations, size of open positions and maximum allowable losses that the Bank could face on those positions;
- Stress testing to assess and manage the risks associated with extreme market movements on the market values of the portfolios;
- Prudent valuation process to determine the mark-to-market or fair values of market risk related financial instruments and derivatives and maintain data quality;
- Pillar 1 and Pillar 2 treatment of market risk to assess and determine the Bank's capital needs in relation to its market risk profile
- Management of Interest rate risk in the Banking Book (IRRBB) that is consistent with the guidance provided by both the BCBS and SAMA, wherein the Bank's risk appetite for IRRBB shall be measured in terms of both Economic Value of Equity (EVE) and Earnings at Risk (EAR);
- Monitoring and comprehensive reporting for on-going management information on The Bank's market risk profile to the BoD and Senior Management.

Liquidity risk mitigation

The Bank 's Liquidity Risk Strategy forms a part of the Bank's overarching risk strategy which requires the Bank to provide oversight of liquidity management and contingent funding strategies to ensure the continued viability and funding of the Bank in a time of crisis and it aspires to:

a) Ensure funds are available in line with business expectations under both normal business conditions and extreme conditions caused by unforeseen events;

b) Manage liquidity prudently to meet both financial commitments and facilitate business expansion;

c) Maintain the flexibility to capitalise on market opportunities in normal business conditions;

d) Avoid raising funds at a premium over the market rate or through the forced sale of assets; and

e) Maintain a diversified deposit base avoiding undue dependence on maturity or depositor concentration.

In order to realise the Bank's Liquidity Risk Strategy, the below best practices are adopted:

a) Liquidity Environment Analysis: On-going monitoring of sources of liquidity risk in order to anticipate and identify any internal or external developments that could lead to a potential adverse liquidity event - Customer deposits form a significant part of the Bank's funding. The Bank places considerable importance on maintaining the stability of both its customer and interbank deposits. The stability of deposits depends on maintaining confidence in the Group's financial strength and financial transparency.;

b) Liquidity Forecasting: Projecting the liquidity profile of the Bank in order to identify future funding needs and gaps;

c) Liquidity Limits: Adhering to regulatory requirements, as well as align to the Bank's internal limits, tolerances and risk appetite - The Bank has established approved limits which restrict the volume of liabilities maturing in the short-term. An independent risk management function monitors the future cash flow maturity profile against approved limits on a daily basis. The cash flows are monitored against limits applying to both daily and cumulative cash flows occurring over a 30 day period. The liquidity limits ensure that the net cash outflows over a 30 day period do not exceed the eligible stock of available liquid resources. The cash flow analysis is also monitored on a monthly basis by the Assets and Liabilities Committee (ALCO).;

d) Liquid Reserves: Maintaining highly marketable assets that can easily be converted to cash in the event of any unforeseen interruption in cash flows;

e) Stress Testing: Conducting stress testing to measure the effect of abnormal market conditions on the liquidity profile of the Bank; and

f) Contingency Planning: Specifying immediate actions for obtaining replacement funding and alternative funding resources in order to be able to generate sufficient liquidity under critical conditions - These plans identify early indicators of stress conditions and prescribe the actions to be taken in the event of a systemic or other crisis, while minimising adverse long-term implications for the Group's business activities.

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3. OV1 - Overview of RWA

	SAR 000's	(a) RWA		(c) Minimum capital requirements
		31 Dec 2020	30 Sep 2020	31 Dec 2020
1	Credit risk (excluding counterparty credit risk)	25,461,430	25,528,535	2,036,914
2	Of which: standardised approach (SA)	25,461,430	25,528,535	2,036,914
3	Of which: foundation internal ratings-based (F-IRB) approach			
4	Of which: supervisory slotting approach			
5	Of which: advanced internal ratings-based (A-IRB) approach			
6	Counterparty credit risk (CCR)	283,044	319,232	22,644
7	Of which: standardised approach for counterparty credit risk	283,044	319,232	22,644
8	Of which: Internal Model Method (IMM)			
9	Of which: other CCR			
10	Credit valuation adjustment (CVA)	133,088	167,775	10,647
11	Equity positions under the simple risk weight approach			
12	Equity investments in funds – look-through approach			
13	Equity investments in funds – mandate-based approach			
14	Equity investments in funds – fall-back approach			
15	Settlement risk			
16	Securitisation exposures in banking book			
17	Of which: securitisation internal ratings-based approach (SEC-IRBA)			
18	Of which: securitisation external ratings-based approach (SEC-ERBA), including internal assessment approach (IAA)			
19	Of which: securitisation standardised approach (SEC-SA)			
20	Market risk	527,184	464,747	42,175
21	Of which: standardised approach (SA)	527,184	464,747	42,175
22	Of which: internal model approaches (IMA)			
23	Capital charge for switch between trading book and banking book			
24	Operational risk	951,591	951,591	76,127
25	Amounts below the thresholds for deduction (subject to 250% risk weight)			
26	Floor adjustment	0	0	0
27	**Total** (1 + 6 + 10 + 11 + 12 + 13 + 14 + 15 + 16 + 20 + 23 + 24 + 25 + 26)	27,356,337	27,431,880	2,188,507

Point to note:

(i) Items marked with an asterisk (*) will be applicable only after their respective policy frameworks take effect. Until then, "Not applicable" should be reported in the rows.

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As at 31st December 2020

4. LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

31 December 2020	a	b	c	d	e	f	g
			Carrying values of items:				
SAR 000's	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets							
Cash and balances with the Saudi Arabian Monetary Authority (SAMA)	8,924,059	8,924,059	8,924,059				
Due from banks and other financial institutions	1,267,331	1,267,331	1,267,331				
Investments, net	3,161,053	3,161,768	2,937,303			224,465	
Positive fair value of derivative financial instruments	284,991	284,991		284,991			
Loans and advances, net	18,761,718	18,945,740	18,945,740				
Property and equipment, net	65,820	65,820	65,820				
Intangible assets, net	47,036	47,036	47,036				
Right-of-use assets	217,943	217,943	217,943				
Other assets	152,420	152,420	152,420				
Total assets	**32,882,371**	**33,067,108**	**32,557,652**	**284,991**		**224,465**	
Liabilities							
Due to banks and other financial institutions	2,320,715						2,320,715
Customers' deposits	22,368,371						22,368,371
Negative fair value of derivative financial instruments	324,578						324,578
Lease liabilities	213,278						213,278
Other liabilities	596,276						596,276
Total liabilities	25,823,218						25,823,218

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As at 31st December 2020

5. LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

31 December 2020		a	b	c	d	e
			Items subject to:			
SAR 000's		Total	Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	33,067,108	32,557,652		284,991	224,465
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	0				
3	Total net amount under regulatory scope of consolidation	33,067,108	32,557,652		284,991	224,465
4	Off-balance sheet amounts	36,250,993	35,937,175		313,818	
5	Differences due to Credit Conversion Factor (CCF)	(29,453,755)	(29,453,755)			
6						
7						
8						
9						
10	**Exposure amounts considered for regulatory purposes**	**39,864,346**	**39,041,072**	**0**	**598,809**	**224,465**

6. LIA: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

There is no significant difference between carrying value as reported in published financial statements and regulatory exposure amounts.

On-Balance sheet exposure is different from published financial statements with respect to IFRS ECL provisions, it is treated as part of Tier II capital for capital adequacy purposes while it is netted against the asset in the published financial statements. In case of off-Balance sheet, total carrying amount is used in published financial statements while the credit equivalent amounts (after applying conversion factors) are used for regulatory capital adequacy purposes.

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7. CC1: Composition of regulatory capital

	31 December 2020 SAR 000's	a Amounts	b Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	7,500,000	
2	Retained earnings	(433,618)	
3	Accumulated other comprehensive income (and other reserves)	(7,229)	
4	Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)		
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)		
6	Common Equity Tier 1 capital before regulatory adjustments	7,059,153	
	Common Equity Tier 1 capital: regulatory adjustments		
7	Prudent valuation adjustments		
8	Goodwill (net of related tax liability)		(a) minus (d)
9	Other intangibles other than mortgage servicing rights (net of related tax liability)		(b) minus (e)
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)		
11	Cash flow hedge reserve		
12	Shortfall of provisions to expected losses		
13	Securitisation gain on sale (as set out in paragraph 36 of Basel III securitisation framework25)		
14	Gains and losses due to changes in own credit risk on fair valued liabilities		
15	Defined benefit pension fund net assets		
16	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)		
17	Reciprocal cross-holdings in common equity		
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)		
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)		
20	Mortgage servicing rights (amount above 10% threshold)		(c) minus (f) minus 10% threshold
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)		
22	Amount exceeding the 15% threshold		
23	Of which: significant investments in the common stock of financials		
24	Of which: mortgage servicing rights		
25	Of which: deferred tax assets arising from temporary differences		
26	National specific regulatory adjustments		
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions		
28	Total regulatory adjustments to Common Equity Tier 1		
29	Common Equity Tier 1 capital (CET1)	7,059,153	
	Additional Tier 1 capital: instruments		

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As at 31st December 2020

7. CC1: Composition of regulatory capital (continued)

	31 December 2020 SAR 000's	a Amounts	b Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation
30	Directly issued qualifying additional Tier 1 instruments plus related stock surplus		
31	Of which: classified as equity under applicable accounting standards		
32	Of which: classified as liabilities under applicable accounting standards		
33	Directly issued capital instruments subject to phase-out from additional Tier 1		
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)		
35	Of which: instruments issued by subsidiaries subject to phase-out		
36	Additional Tier 1 capital before regulatory adjustments		
	Additional Tier 1 capital: regulatory adjustments		
37	Investments in own additional Tier 1 instruments		
38	Reciprocal cross-holdings in additional Tier 1 instruments		
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)		
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation		
41	National specific regulatory adjustments		
42	Regulatory adjustments applied to additional Tier 1 due to insufficient Tier 2 to cover deductions		
43	Total regulatory adjustments to additional Tier 1 capital		
44	Additional Tier 1 capital (AT1)		
45	Tier 1 capital (T1 = CET1 + AT1)	7,059,153	
	Tier 2 capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus		
47	Directly issued capital instruments subject to phase-out from Tier 2		
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)		
49	Of which: instruments issued by subsidiaries subject to phase-out		
50	Provisions	184,737	
51	**Tier 2 capital before regulatory adjustments**	184,737	
	Tier 2 capital: regulatory adjustments		
52	Investments in own Tier 2 instruments		
53	Reciprocal cross-holdings in Tier 2 instruments and other TLAC liabilities		
54	Investments in the capital and other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)		
54a	Investments in the other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation and where the bank does not own more than 10% of the issued common share capital of the entity: amount previously designated for the 5% threshold but that no longer meets the conditions (for G-SIBs only)		
55	Significant investments in the capital and other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		

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As at 31st December 2020

7. CC1: Composition of regulatory capital (continued)

	31 December 2020 SAR 000's	a Amounts	b Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation
56	National specific regulatory adjustments		
57	Total regulatory adjustments to Tier 2 capital		
58	Tier 2 capital (T2)	184,737	
59	Total regulatory capital (TC = T1 + T2)	7,243,890	
60	Total risk-weighted assets	27,356,337	
	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	25.8%	
62	Tier 1 (as a percentage of risk-weighted assets)	25.8%	
63	Total capital (as a percentage of risk-weighted assets)	26.5%	
64	Institution-specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets)	2.6%	
65	Of which: capital conservation buffer requirement	2.5%	
66	Of which: bank-specific countercyclical buffer requirement	0.1%	
67	Of which: higher loss absorbency requirement		
68	Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirements	15.2%	
	National minima (if different from Basel III)		
69	National Common Equity Tier 1 minimum ratio (if different from Basel III minimum)		
70	National Tier 1 minimum ratio (if different from Basel III minimum)		
71	National total capital minimum ratio (if different from Basel III minimum)		
	Amounts below the thresholds for deduction (before risk weighting)		
72	Non-significant investments in the capital and other TLAC liabilities of other financial entities		
73	Significant investments in the common stock of financial entities		
74	Mortgage servicing rights (net of related tax liability)		
75	Deferred tax assets arising from temporary differences (net of related tax liability)		
	Applicable caps on the inclusion of provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	184,737	
77	Cap on inclusion of provisions in Tier 2 under standardised approach	341,954	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)		
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach		
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	Current cap on CET1 instruments subject to phase-out arrangements		
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)		
82	Current cap on AT1 instruments subject to phase-out arrangements		
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		
84	Current cap on T2 instruments subject to phase-out arrangements		
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		

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As at 31st December 2020

8. CC2 – Reconciliation of regulatory capital to balance sheet

	a	b	c
	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	As at 31 Dec 2020	As at 31 Dec 2020	
Assets			
Cash and balances with the Saudi Arabian Monetary Authority (SAMA)	8,924,059	8,924,059	
Due from banks and other financial institutions	1,267,331	1,267,331	
Investments, net	3,161,053	3,161,768	
Positive fair value of derivative financial instruments	284,991	284,991	
Loans and advances, net	18,761,718	18,945,740	
Property and equipment, net	65,820	65,820	
Intangible assets, net	47,036	47,036	
Right-of-use assets	217,943	217,943	
Other assets	152,420	152,420	
Total assets	**32,882,371**	**33,067,108**	
Liabilities			
Due to banks and other financial institutions	2,320,715	2,320,715	
Customers' deposits	22,368,371	22,368,371	
Negative fair value of derivative financial instruments	324,578	324,578	
Lease liabilities	213,278	213,278	
Other liabilities	596,276	596,276	
Total liabilities	**25,823,218**	**25,823,218**	
Shareholders' equity			
Share capital	7,500,000	7,500,000	
	1,753	1,753	
Fair value reserve	(8,982)	(8,982)	
Retained earnings	(433,618)	(433,618)	
Tier II Capital		184,737	
Total shareholders' equity	**32,882,371**	**33,067,108**	

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9. CCA: Main features of regulatory capital instruments and of other TLAC-eligible instruments

		a
		Quantitative / qualitative information
1	Issuer	Gulf International Bank - Saudi Arabia
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA
3	Governing law(s) of the instrument	Kingdom of Saudi Arabia Laws
3a	Means by which enforceability requirement of Section 13 of the TLAC Term Sheet is achieved (for other TLAC-eligible instruments governed by foreign law)	NA
4	Transitional Basel III rules	NA
5	Post-transitional Basel III rules	NA
6	Eligible at solo/group/group and solo	Group
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	7,500,000
9	Par value of instrument	10
10	Accounting classification	Equity
11	Original date of issuance	3-Apr-19
12	Perpetual or dated	Perpetual
13	Original maturity date	No Maturity
14	Issuer call subject to prior supervisory approval	NA
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	NA
	Coupons / dividends	
17	Fixed or floating dividend/coupon	NA
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	NA
21	Existence of step-up or other incentive to redeem	NA
22	Non-cumulative or cumulative	NA
23	Convertible or non-convertible	NA
24	If convertible, conversion trigger(s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Writedown feature	NA
31	If writedown, writedown trigger(s)	NA
32	If writedown, full or partial	NA
33	If writedown, permanent or temporary	NA
34	If temporary write-own, description of writeup mechanism	NA
34a	Type of subordination	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	NA
36	Non-compliant transitioned features	NA
37	If yes, specify non-compliant features	NA

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10. CCyB1 – Geographical distribution of credit exposures used in the countercyclical capital buffer

SAR 000's	a	b	c	d	e
		Exposure values and/or risk-weighted assets used in the computation of the countercyclical capital buffer		Bank-specific countercyclical capital buffer rate	Countercyclical buffer amount
Geographical breakdown	Countercyclical capital buffer rate	Exposure values	Risk-weighted assets		
GCC and ME	2.50%	1,177,517	603,826		
Europe	1.00%	182,609	66,209		
South E. Asia	0.23%	963,034	881,409		
North America	0.00%	276,703	135,790		
Sum		2,599,863	1,687,234		
Total		39,639,881	25,917,045	0.1%	17,127

11. LR1 - Summary comparison of accounting assets vs leverage ratio exposure measure

	SAR 000's	a
1	Total consolidated assets as per published financial statements	32,882,371
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	
3	Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference	
4	Adjustments for temporary exemption of central bank reserves (if applicable)	
5	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	
6	Adjustments for regular-way purchases and sales of financial assets subject to trade date accounting	
7	Adjustments for eligible cash pooling transactions	
8	Adjustments for derivative financial instruments	28,425
9	Adjustment for securities financing transactions (i.e. repurchase agreements and similar secured lending)	
10	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off balance sheet exposures)	6,483,420
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	
12	Other adjustments	184,737
13	**Leverage ratio exposure measure**	**39,578,953**

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12. LR2 - Leverage ratio common disclosure

	SAR 000's	a 31 Dec 2020
On-balance sheet exposures		
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	32,781,715
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 and 2)**	**32,781,715**
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	242,876
5	Add-on amounts for PFE associated with all derivatives transactions	70,942
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	
8	(Exempted CCP leg of client-cleared trade exposures)	
9	Adjusted effective notional amount of written credit derivatives	
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	
11	**Total derivative exposures (sum of rows 4 to 10)**	**313,818**
Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjustment for sale accounting transactions	
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	
14	CCR exposure for SFT assets	
15	Agent transaction exposures	
16	**Total securities financing transaction exposures (sum of rows 12 to 15)**	**-**
Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	35,937,175
18	(Adjustments for conversion to credit equivalent amounts)	(29,453,755)
19	**Off-balance sheet items (sum of rows 17 to 18)**	**6,483,420**
Capital and total exposures		
20	Tier 1 capital	7,059,153
21	**Total exposures (sum of rows 3, 11, 16 and 19)**	**39,578,953**
Leverage ratio		
25	Basel III leverage ratio	17.8%

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13. LIQA - Liquidity Risk Management:

a) Governance of liquidity risk management, including: risk tolerance; structure and responsibilities for liquidity risk management; internal liquidity reporting; and communication of liquidity risk strategy, policies and practices across business lines and with the board of directors.

The Bank has a Board approved Liquidity Risk Management Policy (LRMP) that sets out the principles, minimum standards, risk appetite, approach and the key roles and responsibilities of the Board of Directors (BoD) and the Senior Management in relation to the liquidity risk management in the Bank. The BoD delegates some of its supervisory responsibilities to the Board Risk Policy Committee (BRPC) which assist the BoD in reviewing the risk profile of the Bank, establishing the Risk Management Framework and relevant controls, reviewing the risk appetite, policies, and overall limits and parameters within which the Bank conducts its business. The Assets and Liabilities Committee (ALCO) chaired by the Chief Financial Officer, and include Chief Risk Officer, Head of Corporate Banking, Head of Retail Banking, Head of Market and Liquidity Risk, and Head of Treasury as members. ALCO regularly monitors the liquidity risk profile of the Bank and periodically reviews information to understand and assess the liquidity risk exposure, including the composition, maturity characteristics and diversification of the liquidity resources.

Treasury has the overall responsibility for managing the status of liquidity on a day-to-day basis and meeting short-term cash flow and manage funding requirements within ALCO approved limits.

The Bank has identified the following risk appetite metrics to assist in measuring the liquidity risk exposure.

a) Liquidity Coverage Ratio: The measure of the Bank's short-term resilience in facing stressed conditions for a period of up to one month

b) Net Stable Funding Ratio: The measure of the Bank's long-term resilience in facing stressed conditions for periods beyond one year

c) Liquidity Gap Limits: Then Bank has established liquidity gap limits based on the projected balance sheet and behavioural assumptions

d) Survival Time Horizon: The period in which the Bank shall be able to survive without resorting to external funding based on cash flow assumptions approved by ALCO

e) Stress Testing: The Bank conducts stress testing on a frequent basis to assess the liquidity risk associated with stress events

f) Fund Raising Capacity from Liquidity Reserve: The Bank's ability to raise funding within a short period at an acceptable cost through the utilisation of the Bank's liquidity reserve

g) SAMA's Liquidity Ratio: Ensures that the 20% of the customer deposits are always maintained in short dated placements, treasury bills and government Bonds

h) Loans to Deposits ratio: Ensures that the Bank has adequate customer deposits to fund its loans portfolio

b) Funding Strategy

The Bank's funding strategy is to increase the retail and operational wholesale deposits through its Global Transaction Banking (GTB) and Retail initiatives. Additionally, the Bank also ensures that deposit maturities are not concentrated by ensuring the deposits have an average (remaining) tenor of 90 days. The average tenor of core deposits is monitored by ALCO monthly and reported to the BRPC each quarter.

c) Liquidity risk mitigation techniques

Liquidity risk is the risk that sufficient funds are not available to meet the Bank's financial obligations on a punctual basis as they fall due. The risk arises from the timing differences between the maturity profiles of the Bank's assets and liabilities. It includes the risk of losses arising from the following:

- forced sale of assets at below normal market prices
- raising of deposits or borrowing funds at excessive rates
- the investment of surplus funds at below market rates

Liquidity management policies are designed to ensure that funds are available at all times to meet the funding requirements of the Bank, even in adverse conditions. In normal conditions, the objective is to ensure that there are sufficient funds available not only to meet current financial commitments but also to facilitate business expansion. These objectives are met through the application of prudent liquidity controls. These controls provide access to funds without undue exposure to increased costs from the liquidation of assets or the aggressive bidding for deposits.

The Bank's liquidity controls ensure that, over a medium-term horizon, the future profile of cash flows are adequately controlled through liquidity gap limits. Liquidity controls also provide for the maintenance of a stock of liquid and readily realisable assets and a diversified deposit base in terms of both maturities and range of depositors.

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13. LIQA - Liquidity Risk Management: (continued)

d) Liquidity Stress Testing

The Bank conducts liquidity stress testing as part of the quarterly BRPC meeting and the ILAAP exercise. The stress tests are conducted under three scenarios; severe, moderate and mild over a time horizon of three months. The impact of liquidity risk factors such as deposit concentration risk, Retail funding risk, Wholesale funding risk and other material risks are assessed to gauge the impact on regulatory ratios.

The stress tests are designed to assess the Bank's liquidity position under the three stress test scenarios in conjunction with the management actions that can be taken (if required) to restore the regulatory ratios within the regulatory guidelines in stressed liquidity situations.

e) Contingency funding plan

A Contingency Funding Plan ("CFP") helps ensure that a bank can prudently and efficiently manage extraordinary and unexpected fluctuations in liquidity during stressed conditions. The Bank's CFP outlines the strategy that addresses the avenues for alternative funding if a liquidity crisis arises. The CFP lays out the procedures and action plan to prepare the bank to deal with the crisis on hand with clear responsibilities, invocation and escalation procedures.

The Bank has formalized procedures related to the management of a liquidity crisis by forming a liquidity crisis management team which is mandated by the Board to implement the action plan to return to business as usual conditions. The Bank also has a comprehensive Board approved early warning indicators (EWIs), activation mandate, action plan including crisis assessment, financial and operational actions.

The Bank conducts testing on a frequent basis which includes funding options, liquidity testing and implementation of communication strategy.

The Bank's Risk Management function and ALCO monitors EWIs and its triggers for signs of internal distress as well as in the banking sector, and other geographic areas, which have the potential to impact the Bank's liquidity and funding.

f) Customised measurement tools or metrics that assess the structure of the bank's balance sheet or that project cash flows and future liquidity positions, taking into account off-balance sheet risks which are specific to that bank.

On Balance

SAR 000s	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	7,781,784	-	-	-	1,142,275	8,924,059
Due from Banks and other financial institutions	750,333	-	30,017	-	486,981	1,267,331
Investments, net	57,913	174,072	1,536,585	797,966	594,517	3,161,053
Positive fair value of derivatives	80	251	85,798	198,862	-	284,991
Loans and advances, net	16,865,109	1,278,368	617,106	1,135	-	18,761,718
Other assets	-	-	-	-	483,219	483,219
Total assets	**25,455,219**	**1,452,691**	**2,269,506**	**997,963**	**2,706,992**	**32,882,371**
Liabilities						
Due to banks and other financial institutions	693,600	150,000	-	-	46,191	889,791
Customer deposits	5,338,797	4,443,556	487,313	-	13,529,629	23,799,295
Negative fair value of derivatives	80	387	88,642	235,469	-	324,578
Lease liabilities	-	3,805	55,491	153,982	-	213,278
Other liabilities	-	-	-	-	596,276	596,276
Equity	-	-	-	-	7,059,153	7,059,153
Total Liabilities	**6,032,477**	**4,597,748**	**631,446**	**389,451**	**21,231,249**	**32,882,371**
On Balance sheet Gap	**19,422,742**	**(3,145,058)**	**1,638,059**	**608,513**	**(18,524,256)**	

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13. LIQA - Liquidity Risk Management: (continued)

Off Balance

SAR 000s	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Letters of credit	1,030,318	446,215	1,416	-	1,477,949
Letters of guarantee	1,382,867	5,433,916	1,364,488	45,360	8,226,631
Acceptances	606,501	466,338	58,048	-	1,130,887
Irrevocable commitments to extend credit	-	-	700,000	619,666	1,319,666
Total	**3,019,686**	**6,346,469**	**2,123,952**	**665,026**	**12,155,133**

g) Concentration limits on collateral pools and sources of funding (both products and counterparties.

Sources of Funding Distribution	
Deposits from banks	3.4%
Deposits from customers	92.2%
Other liabilities	4.4%

14. LIQ1 – Liquidity Coverage Ratio (LCR)

SAR 000s	Total Unweighted Value	Total Weighted Value
High-Quality Liquid Assets		
Total high-quality liquid assets (HQLA)		10,953,781
Cash Outflows		
Retail deposits and deposits from small business customers, of which:		
Less stable deposits	1,677,023	167,702
Unsecured wholesale funding, of which:		
Non-operational deposits	14,158,099	6,101,530
Additional requirements, of which:		
Outflows related to derivative exposures and other collateral requirements	180,589	655
Credit and liquidity facilities	1,319,666	131,967
Other contractual funding obligations		
Other contingent funding obligations	15,840,427	366,912
Total Cash Outflows		6,768,766
Cash Inflows		
Inflows from fully performing exposures	2,230,067	1,457,057
Other cash inflows	73,692	4.34
Total Cash Inflows	**2,303,759**	**1,457,061**
Total HQLA		**10,953,781**
Total Net Cash Outflows		**5,311,704**
Liquidity Coverage Ratio (%)		**206%**

- The average LCR is calculated by taking a simple average of the daily balances for the month of December 2020
- Saudi Central Bank requires banks to maintain minimum LCR of 100%. The Bank's LCR stands at 206% as at December 31, 2020
- The Bank held 98% of its High-Quality Liquid Assets (HQLA) in the form of cash, placements with central bank and 0% risk weight sovereign securities
- The majority of the Bank's weighted cash flows are attributable to the wholesale funding comprising of 55% of outflows; sovereigns, central banks, PSEs and MDBs at 24%, bank deposits at 11% and retail deposits at 2%
- As required by the regulator, LCR is monitored for all significant currencies to ensure compliance with liquidity ratios in either currency, these include SAR and USD

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15. LIQ2 – Net Stable Funding Ratio (NSFR)

SAR 000s	Unweighted Value by Residual Maturity			
Available stable funding (ASF)	**< 6 months**	**≥ 6 months to < 1 year**	**≥1 year**	**Weighted Value**
Capital			7,243,890	7,243,890
Retail: Less stable deposits	3,640,609	24,529	1,986	3,300,611
Wholesale funding (non-operational deposit)	13,437,645	512,317	50,073	7,025,054
Unsecured funding from central banks	948.643		532,019	532,019
Unsecured funding from sovereigns/PSEs/MDBs/NDBs/Others	5,228,663	310,373		2,377,501
Total ASF				**20,479,075**
Required stable funding (RSF)				
Coins and banknotes	33,975			
Total central bank reserves	8,880,377			
Unsecured loans to financial institutions	1,165,443		30,032	204,848
Securities eligible as Level 1 HQLA			1,858,846	92,942
Securities eligible for Level 2B HQLA			361,164	180,582
Unencumbered loans to non-financial corporate clients with a residual maturity of less than one year	10,488,766	1,521,538		6,005,152
Unencumbered loans to retail and small business customers with a residual maturity of less than one year	84,022	83,317		83,659
Unencumbered performing loans with risk weights greater than 35% under the Basel II standardised approach for credit risk			5,143,834	4,372,259
Unencumbered Non-HQLA exchange traded equities			101,223	86,039
Unencumbered Non-HQLA securities not in default	135,000	77,000	681,594	791,355
Other short-term unsecured instruments and transactions with a residual maturity of less than one year	792,011			396,005
Defaulted securities and non-performing loans	333,320	17,203	202,307	552,833
Derivatives assets			292,747	
NSFR derivative assets (derivative assets less cash collateral received as variation margin on derivative assets)			143,202	143,202
Required stable funding associated with derivative liabilities			149,545	29,909
All other assets not included in above categories that qualify for 100% treatment	560,114			560,114
Off-balance sheet items	1,319,666			65,983
Total RSF				**13,564,882**
Net Stable Funding Ratio				**151%**

- As at December 31, 2020 the Bank held a balance of 35% of its Available Stable Funding (ASF) in form of capital, with a 100% ASF factor. The majority of the remaining balance of ASF was 34% in wholesale funding with 50% ASF factor and 16% in retail deposits with 90% ASF factor
- The Required Stable Funds (RSF) as at December 31, 2020 primarily consisted of performing loans and securities contributing 88% of the RSF, with various RSF factors. The remaining RSF are attributable to HQLA, other assets and off-balance sheet items

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16. CRA - General qualitative information about credit risk

a) How the business model translates into the components of the Bank's credit risk profile.

Credit risk is the risk that a customer, counterparty or an issuer of securities or other financial instruments fails to perform under its contractual payment obligations thus causing the Bank to suffer a loss in terms of cash flow or market value. Credit risk is the predominant risk type faced by the Bank in its banking, investment and treasury activities, both on- and off-balance sheet.

Where appropriate, the Bank seeks to minimise its credit exposure using a variety of techniques including, but not limited to, the following:

- entering netting agreements with counterparties that permit the offsetting of receivables and payables
- obtaining collateral
- seeking third party guarantees of the counterparty's obligations
- imposing restrictions and covenants on borrowers

Credit risk is actively managed and rigorously monitored in accordance with well-defined credit policies and procedures. Prior to the approval of a credit proposal, a detailed credit risk assessment is undertaken which includes an analysis of the obligor's financial condition, market position, business environment and quality of management. The risk assessment generates an internal credit risk rating for each counterparty, which affects the credit approval decision and the terms and conditions of the transaction. For cross-border transactions, an analysis of country risk is also conducted. The credit decision for an individual counterparty is based on the aggregate Bank exposure to that counterparty and all its related entities.

b) Criteria and approach used for defining credit risk management policy and for setting credit risk limits.

The Bank has established a framework to identify all activities that might result in credit risk exposure and continues to rigorously manage its exposure to ensure that the Bank addresses the risk of default and consequent loss of earnings and impact on capital.

The credit risk management framework encompasses credit risk governance structure, credit risk appetite, credit risk strategies, credit risk policies and which are fully compliant with the BCBS and SAMA's regulations.

The Bank has a **credit risk governance structure** is in place that oversees credit risk management, supported by individuals and committees who have the appropriate levels of experience, qualifications and competence.

The Bank's risk appetite statement includes the Bank level **credit risk appetite** ensuring diversification and concentration limit thereby embracing credit risk capacity, targets, and tolerance levels and limit structure.

The Bank has developed **credit risk strategies** that shall help in minimising undue concentration and unexpected losses, while maintaining a diversified credit portfolio, effectively protecting the Bank's capital in all market conditions. These strategies clearly articulate and define the product lines and types of credit facilities offered, target markets (customers, industries, countries), portfolio mix, credit granting criteria, credit approving authorities and exceptions reporting.

The Bank has in place clearly articulated **credit risk policies and procedures** to address credit risk in the bank's activities at both individual and credit portfolio level, which reflect the bank's credit culture and ethical standards including credit granting, credit rating, credit monitoring, collateral management and distressed credit.

Bank-wide **credit limit setting** and approval authorisation requirements are conducted within Board approved guidelines, and the measurement, monitoring and control of credit exposures are done on a Bank-wide basis in a consistent manner. Overall exposures are evaluated to ensure diversification of credit risk. Potential concentration risks by product, industry, single obligor, credit risk rating and geography are regularly assessed with a view to improving overall portfolio diversification. Established limits and actual levels of exposure are regularly reviewed by the Chief Risk Officer (CRO) and other members of senior management.

All credit exposures are reviewed at least once a year. Credit policies and procedures are designed to identify, at an early stage, exposures which require more detailed monitoring and review.

Credit Granting and Rating

The Bank has established policies and processes to ensure that the Bank manages credit risk inherent in all products and activities based on the below key guidelines:

a) Risks of new products and activities is subject to adequate risk management procedures and controls and endorsed by the relevant authorised Committee/Senior Management, before being introduced to the market;

b) Credit exposure is subjected to a comprehensive credit review and due diligence;

c) Detailed credit rating methodology based on leading practices is used for assessing the credit worthiness of its obligors;

d) Policy is in place for the acceptance, assessment and management of collateral, where applicable; and

e) Clearly identified process is in place for obtaining credit approvals for new credit, as well as for amendments, renewals and refinancing of existing credit.

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16. CRA - General qualitative information about credit risk (continued)

Credit Monitoring and Reporting

The Bank has established policies and processes to administer and monitor credit on an individual level and portfolio level, ensuring composition and quality of the credit (portfolio and individual), through the analysis of qualitative and quantitative information and ensuring adequacy of provisions when required;

a) Efficient and effective credit administration policies govern monitoring adequacy of documentation, contractual requirements, adequate segregation of duties, adequate controls over all back-office procedures and compliance with prescribed management policies;
b) Credit risk exposures are assessed under stressful conditions by conducting appropriate stress testing using different scenarios;
c) Concentration risk is monitored by industry, segment, single obligor, credit rating and geography;
d) Framework for early warning indicators is implemented that measures the Bank's credit risk exposures;
e) Comprehensive procedures and adequate management information systems are in place to support the continuous monitoring and assessment of credit risk at both an individual and portfolio level;
f) Independent and on-going assessment of the credit risk management process is in place;
g) Effective and efficient internal reporting framework is established; and
h) Internal controls to ensure that exceptions to policies and limits are monitored and reported to the appropriate approving authorities are established.

Distressed Credit

The Bank has policies and processes in place for managing distressed credit and to ensure that remedial actions are undertaken on a timely basis. The Bank has a remedial management process triggered by specific events throughout the credit monitoring process. The Bank has established a Provisions Committee which sets the provisioning framework, methodology and processes, to ensure that adequate levels of provisions are in place at both an individual and portfolio level. The Provisions Committee reviews the provisions on a quarterly basis. The Bank classifies its exposures and calculate provisions in accordance with IFRS 9;

c) Structure and organisation of the credit risk management and control function.

The Bank's Board-approved credit risk management structure clearly delineates lines of authority, establish accountabilities and responsibilities of individuals involved in the different phases of the credit risk management process.

The Bank's credit risk management organisation is broadly classified into three functional lines of activities: The Business Lines, Credit Risk Management function and Credit administration, to properly segregate accountabilities, ensure that no individual is assigned conflicting responsibilities, and effectively monitor and control the risks being taken.

The **Business lines** (Wholesale Banking, Treasury and Retail Banking) perform credit originating; recommend internal credit ratings, classifications and allowances for losses including changes thereafter, if required; and the on-going monitoring of credit exposures of borrowers on a day-to-day basis.

The Bank has a dedicated **Credit Risk Management function** that are independent of business units headed by the CRO, who reports to the CEO. The Credit Risk Management function staff members have the necessary skills, expertise and specialisation. The function performs risk management and control functions that are independent from the credit originating and administration functions. The Credit Risk Management function provides meaningful inputs in policy formulation and limits setting, designs and implements the Bank's internal credit risk rating system and reviews periodic exposure and exception monitoring. All credit proposals are independently reviewed by the Credit Risk Management function and then recommended to the appropriate level of approval authority as defined in the Bank's policy which include Board of Directors, the Executive Committee of the Board and Senior Management Credit Committee of the Bank.

Special Asset Management is another function within Risk Management that is independent from the credit originating function to ensure that problem loans are managed effectively to minimize potential losses.

The **Credit Administration and Risk Control** function provides support in the overall credit administration, including, among others: ensuring complete documentation, credit disbursement and recording of payments received; maintenance of credit and collateral files; and compilation of management information reports.

d) Relationships between the credit risk management, risk control, compliance and internal audit functions.

The Board has ultimate responsibility for the Bank's risk organisation and for ensuring satisfactory internal controls. The Board adopts policies for controlling all perceived risks and these are supplemented by detailed routines and guidelines within the Bank. Board Risk Policy Committee (BRPC) supports the Board by discussing, steering and monitoring these risks and prepare for decisions by the full Board.

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16. CRA - General qualitative information about credit risk (continued)

The CEO has overall responsibility for managing all the Bank's risks in accordance with the Board's policies. The CEO ensures that the Bank's organisation and administration are appropriate and that the Bank's operations are in compliance with the external and internal framework. The CRO supports the CEO by ensuring that the Board has all necessary information to make risk related decisions.

The basis for the risk management and internal controls framework in the Bank is based on the three lines of defence model that is governed by the Bank's policies.

The first line of defence refers to all risk management activities carried out by the line management and staff. All managers are fully responsible for the risks, and the management of these, within their respective area of responsibility. Hence, they are responsible for ensuring that the appropriate organisation, procedures and support systems are implemented to ensure a sufficient system of internal controls.

The second line of defence refers to Bank's independent Credit Risk Management, Risk Control and Compliance Functions. To ensure independence, these functions are not involved in business operations. These functions set the framework and principles for the work on risk management and compliance, and carry out independent follow-up. Each function in the second line of defence has a well-defined mandate to ensure full independence of each function organisationally and operationally. These functions, however, operate in a coordinated manner to ensure that the Bank maintains the Risk Management Framework and Strategy.

Credit Risk Management is responsible for maintaining the Credit Risk Management Framework in the Bank by conducting credit risk assessments and managing the credit approval process within the Bank's risk strategy, risk profile, risk appetite and policy standards.

Credit Administration and Risk Control is responsible for the overall documentations, collateral management and limits management framework of the Bank where they ensure no breaches are noted. Any exceptions, if any, is escalated to the relevant stakeholders.

Compliance Function is responsible for ensuring compliance with KYC guidelines under applicable laws and regulatory requirements. The third line of defence refers to the **Internal Audit Function** which is responsible for carrying out a risk-based programme of work designed to provide assurance that Board-approved Credit Risk Management Framework have been consistently applied. This involves ensuring that controls are in place and working effectively in accordance with the Bank's policies and procedures as well as with laws and regulations. The Board Audit Committee receives regular reports of the results of audit work.

e) Scope and main content of the reporting on credit risk exposure and on the credit risk management function to the executive management and to the board of directors.

The Credit Risk Reporting incorporates all the relevant forward looking business and financial risk drivers and metrics that are reflective of the nature of the Bank's business and is based on data that is subject to appropriate controls to ensure its integrity. The Credit Risk reports provided to Senior management and the Board on quarterly basis include:

- Providing an overview of GIB's credit risk profile, includes:
  - High-level summary of credit portfolio by credit rating classification, industry, region and country.
  - Summary of significant period-on-period changes to portfolio structure and composition.
  - Highlights of observed limit breaches, if any, including credit concentration limits together with details of corrective action.
  - Summary of collateral portfolio and composition.
  - Highlights of significant changes, if any, in the level of provisions, non-performing loans, major write-offs, decline in collateral values etc., and management actions taken in light of their developments.
  - Monitoring compliance with risk appetite metrics.
- Monitoring the results of the credit risk stress tests including:
  - Results of the quarterly credit risk stress testing, underlying scenarios and assumptions employed.

Key highlights from the analysis of the stress test results and comparison of results against the previous quarter.

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17. CR1 - Credit quality of assets

		a	b	c	d
		Gross carrying values of			
	SAR 000's	Defaulted exposures	Non-defaulted exposures	Allowances/ impairments	Net values (a+b-c)
01	Loans	793,615	18,592,101	439,976	18,945,740
02	Debt Securities	0	2,567,251	0	2,567,251
03	Off-balance sheet exposures	0	36,250,993	0	36,250,993
04	**Total**	**793,615**	**57,410,345**	**439,976**	**57,763,984**

A default is considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place:

1. The obligor is past due for 90 days or more on any material credit obligations to the Bank including principal instalments, interest payments and fees.
2. The bank considers that the obligor 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).

18. CR2 - Changes in stock of defaulted loans and debt securities

	SAR 000's	Loans
1	**Defaulted loans and debt securities at end of the previous reporting period**	**1,449,200**
2	Loans and debt securities that have defaulted since the last reporting period	64,383
3	Returned to non-defaulted status	
4	Amounts written off	(698,825)
5	Other changes	(21,143)
6	**Defaulted loans and debt securities at end of the reporting period**	**793,615**

19. CRB – Additional disclosure related to the credit quality of assets

a) The scope and definitions of past due and impaired exposures used for accounting purposes and the differences, if any, between the definition of past due and default for accounting and regulatory purposes.

Past due exposures represent those assets with payment obligations that has not been made as of the due date and / or in a timely fashion.

Individually **impaired** financial assets represent assets for which there is objective evidence that the Bank will not collect all amounts due, including both principal and interest, in accordance with the contractual terms of the obligation. Provisions for impairment are determined based on the difference between the net carrying amount and the recoverable amount of a financial asset. The recoverable amount is measured as the present value of expected future cash flows, including amounts recoverable from guarantees and collateral.

Provisions for impairment are also measured and recognised on a collective basis in respect of expected credit losses and are classified as either stage 1 or stage 2, in accordance with IFRS 9.

The stage 1 and stage 2 provisions reflect the probability-weighted estimate of expected credit losses. The provisions comprise both quantitative and qualitative information and analysis, based on the Bank's historical experience and taking into consideration both internal and external indicators and includes forward-looking information.

Provisions for impairment are recognised in the consolidated statement of income and are reflected in an allowance account against loans and advances, investment securities and placements.

Credit facilities are placed on non-accrual status and interest income suspended when either principal or interest is overdue by 90 days whereupon unpaid and accrued interest is reversed from income. Interest on non-accrual facilities is included in income only when received. Credit facilities classified as past due are assessed for impairment in accordance with the IFRS guidelines. A specific provision is established only where there is objective evidence that a credit facility is impaired.

b) The extent of past-due exposures (more than 90 days) that are not considered to be impaired and the reasons for this.

The 90 days rule for past due will generally apply unless the Bank has strong evidence to support a different classification. Substantial scrutiny is required to ensure that such evidence is in place and that it is fully documented and approved by the relevant authorities.

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19. CRB – Additional disclosure related to the credit quality of assets (continued)

c) Description of methods used for determining impairments.

Expected Credit Losses on a collective basis is calculated for the following credit risk-related exposures that are not specifically impaired (provisioned). These would principally consist of:

a) Loans,

b) Credit-related contingents, excluding performance bonds,

c) Investments securities, and

d) Placements that have tenors greater than six months.

For all undrawn advised committed lines, a 50 per cent drawdown is assumed. The 50% drawdown is consistent with the 50% Credit Conversion Facto (CCF) specified under the Basel rules for undrawn committed facilities.

Individually impaired financial assets represent assets for which there is objective evidence that the Bank will not collect all amounts due, including both principal and interest, in accordance with the contractual terms of the obligation. Objective evidence that a financial asset is impaired may include:

a) a breach of contract, such as default or delinquency in interest or principal payments,

b) the granting of a concession that, for economic or legal reasons relating to the borrower's financial difficulties, would not otherwise be considered,

c) indications that it is probable that the borrower will enter bankruptcy or other financial re-organisation,

d) the disappearance of an active market, or

e) other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

d) The Bank's own definition of a restructured exposure.

A restructured loan will be one where the terms and conditions have been modified, principally because of deterioration in the borrower's financial condition. Restructuring proposals will warrant certain concessions / conditions depending upon the particular situations involved.

e) Geographic analysis of credit risk exposures under the Standardised approach:

	SAR 000's	Exposures before CCF and CRM						
	Standardised Approach Asset classes	Saudi Arabia	GCC & Middle East	Europe	South East Asia	North America	Others	Total
01	Sovereigns and their central banks	10,921,267						**10,921,267**
02	Non-central government public sector entities	3,283						**3,283**
04	Banks	1,169,793	1,554,489	1,557,712	337,691	1,394,381		**6,014,066**
06	Corporates	46,998,524	501,276		2,028,074			**49,527,874**
07	Regulatory retail portfolios	716,321						**716,321**
10	Equity	370,052						**370,052**
11	Past-due loans	353,639						**353,639**
13	Other assets	1,128,784	58,350					**1,187,134**
14	**Total**	**61,661,663**	**2,114,115**	**1,557,712**	**2,365,765**	**1,394,381**		**69,093,636**

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19. CRB – Additional disclosure related to the credit quality of assets (continued)

f) Industry analysis of credit risk exposures under the Standardised approach:

	SAR 000's													
	Standardised Approach Asset classes	Agriculture	Communication	Construction	Finances	Government	Manufacturing	Mining	Services	Transportation	Utilities	Wholesale Trade	Others	Total
1	Sovereigns and their central banks					10,921,267								10,921,267
2	Non-central government public sector entities					3,283								3,283
4	Banks				6,014,066									6,014,066
5	Corporates	1,558,060	266,547	7,630,124	7,264,445		9,197,853	3,314,114	4,487,458	1,667,205	173,270	10,367,127	3,601,671	49,527,874
6	Regulatory retail portfolios												716,321	716,321
7	Equity				106,351			263,701						370,052
8	Past-due loans			4,454			36,289		36,136	100,147		176,336	277	353,639
9	Other assets				57,408								1,129,726	1,187,134
	Total	**1,558,060**	**266,547**	**7,634,578**	**13,442,270**	**10,924,550**	**9,234,142**	**3,577,815**	**4,523,594**	**1,767,352**	**173,270**	**10,543,463**	**5,447,995**	**69,093,636**

	SAR 000's	Exposures before CCF and CRM					
	Industry Sector	Neither past due nor impaired	Past due but not impaired	Impaired	Total gross amount	Impairment allowances	Total
1	Agriculture	1,558,060			1,558,060		1,558,060
2	Communication	266,547			266,547		266,547
3	Construction	7,488,983	141,141	121,774	7,751,898	117,320	7,634,578
4	Finances	13,442,270			13,442,270		13,442,270
5	Government	10,924,550			10,924,550		10,924,550
6	Manufacturing	9,111,703	86,151	65,757	9,263,611	29,469	9,234,142
7	Mining	3,577,815			3,577,815		3,577,815
8	Services	4,475,974	11,484	36,136	4,523,594		4,523,594
9	Transportation	1,667,204		283,215	1,950,419	183,067	1,767,352
10	Utilities	173,270			173,270		173,270
11	Wholesale Trade	10,367,128		285,399	10,652,527	109,064	10,543,463
12	Others	5,416,681	31,036	1,334	5,449,051	1,056	5,447,995
	Total	**64,170,185**	**269,812**	**793,615**	**69,533,612**	**439,976**	**69,093,636**

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19. CRB – Additional disclosure related to the credit quality of assets (continued)

g) Residual Maturity analysis of credit risk exposures under the Standardised approach:

	SAR 000's	Exposures before CCF and CRM			
	Standardised Approach Asset classes	<=1 year	> 1 year and <= 5 years	> 5 years	Total
01	Sovereigns and their central banks	9,100,870	1,015,488	804,909	10,921,267
02	Non-central government public sector entities	3,283			3,283
04	Banks	5,582,303	386,892	44,871	6,014,066
05	Corporates	40,078,445	8,925,138	524,291	49,527,874
06	Regulatory retail portfolios	49,065	666,018	1,238	716,321
07	Equity			370,052	370,052
08	Past-due loans	215,741	11,049	126,849	353,639
09	Other assets	1,186,383	751		1,187,134
	Total	**56,216,090**	**11,005,336**	**1,872,210**	**69,093,636**

h) Ageing analysis of days for past due credit risk exposures:

	SAR 000's	Exposures before CCF and CRM					
		Up to 29 days	30-59 days	60-89 days	90-179 days	180 days and over	Total
1	Loans	45	414	127		793,029	793,615
2	Debt Securities						
3	Off-balance sheet exposures						
	Total	**45**	**414**	**127**		**793,029**	**793,615**

20. CRC - Qualitative disclosure requirements related to credit risk mitigation techniques

a) Core features of policies and processes for, and an indication of the extent to which the Bank makes use of, on- and off-balance sheet netting.

Not Applicable. No such netting is applicable in the financial statements.

b) Core features of policies and processes for collateral evaluation and management.

The Bank has in place a collateral Management policy that is an integral part of the overall framework of credit risk management for Wholesale Banking within the Bank and sets out the parameters and criteria for the acceptance of collateral and its management. The primary objectives of this collateral Management Framework are to:

a) Assist the Relationship Managers (RMs) of Wholesale Banking in the determination of acceptability of collateral;

b) Support the responsible individuals in conducting an analysis and assessment of collateral against the value of the exposure;

c) Set out the policies to ensure that the collateral provided is legally enforceable;

d) Establish the requirements to safeguard collateral; and

e) Define the process for conducting periodic review and valuation of collateral.

The amount and type of collateral is dependent upon the assessment of the credit risk of the counterparty. The market/ fair value of the collateral is actively monitored on a regular basis and requests are made for additional collateral in accordance with the terms of the facility agreements. In general, lending is based on the customer's repayment capacity rather than the collateral value. However, collateral is considered the secondary alternative if the repayment capacity proves inadequate. Collateral is not usually held against securities or placements.

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20. CRC - Qualitative disclosure requirements related to credit risk mitigation techniques (continued)

Types of eligible collateral commonly accepted

The Bank holds collateral against loans and advances in the form of physical assets, cash deposits, securities and guarantees.

Monitoring of Collateral Values

For all collateral where title deeds are being pledged, the RM with the assistance of external valuators is required to conduct a physical inspection/examination and shall produce a site visit report prior to the granting of the facility. This must be done unless waived by the Credit Approving Authority.

In accordance with section 6.1 (Financial Collateral) of the Basel II – SAMA's Detailed Guidance Document relating to Pillar 1 document, issued by SAMA in June 2016, the Bank applies haircuts to collateral valuation in accordance with section 3 (Collaterals) of the International Convergence of Capital Measurement and Capital Standards paper issued by the Basel Committee on Banking Supervision dated June 2006.

For physical assets, a minimum of two external valuation reports from different valuators shall be considered for the purpose of valuation at the Bank.

The Bank has in place a list of approved valuators who are professional and qualified to provide an opinion on the value of the collateral. The external valuators being appointed should be qualified under respective jurisdiction to conduct examination of the collateral.

The Bank takes into account concentrations of non-cash collateral for all product lines covered by collateral agreements.

Credit Administration function is responsible for generating the report identifying Collateral concentrations

c) Information about market or credit risk concentrations under the credit risk mitigation instruments used (i.e. by guarantor type, collateral and credit derivative providers).

The Bank uses a variety of credit risk mitigation techniques which contribute to risk diversification and credit protection. The different credit risk mitigation techniques such as collateral, guarantees, credit derivatives, netting agreements and covenants are used to reduce credit risk. The recognised credit risk mitigation activities are undertaken with various counterparties to ensure no additional credit or market risk concentrations occur.

Concentration risk is the credit risk stemming from not having a well-diversified credit portfolio, i.e. the risk inherent in doing business with large customers or being overexposed in particular industries or geographic regions. Concentration risk is captured in the Bank's Pillar 2 capital framework through the use of a credit risk portfolio model which considers single-name concentrations and sector concentrations in the credit portfolio

21. CR3 - Credit risk mitigation techniques – overview

SAR 000's		Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
01	Loans	18,811,945	133,795	8,228	9,876	9,664		
02	Debt Securities	2,567,251						
03	**Total**	**21,379,196**	**133,795**	**8,228**	**9,876**	**9,664**		
04	Of which defaulted	353,639						

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22. CRD - Qualitative disclosures on Banks' use of external credit ratings under the standardised approach for credit risk

a) Names of the external credit assessment institutions (ECAIs) and export credit agencies (ECAs) used by the Bank, and the reasons for any changes over the reporting period.

The Bank uses the following External credit assessment institutions (ECAIs):

a) Moody's,

b) Standard & Poor's and

c) Fitch.

b) The asset classes for which each ECAI or ECA is used.

Externally rated Corporate, Banks and Securities Firms.

c) A description of the process used to transfer the issuer to issue credit ratings onto comparable assets in the Banking book (see paragraphs 99–101 of the Basel framework); and

The Bank uses ratings issued by Standard & Poor's, Moody's and Fitch to derive the risk-weightings under the Basel 3 capital adequacy framework. Where ratings vary between rating agencies, the highest rating from the lowest two ratings is used to derive the risk-weightings for regulatory capital adequacy purposes.

d) The alignment of the alphanumerical scale of each agency used with risk buckets (except where the relevant supervisor publishes a standard mapping with which the Bank has to comply).

The Bank uses grade scales from "1" to "10" with sub-grades that totals to 20 rating categories where "1" is the highest or the "best" and 10 is the lowest or the "worst" with ratings from "2" to "6" being further differentiated with "+" and "-" modifiers. The Bank's grade scale is mapped to external rating agencies (Standard & Poor's/ Moody's & Fitch) Investment grades (1-4) are mapped to (Standard & Poors & Fitch AAA to BBB- & Moody's AAA to Baa3), Sub-investment grades (5-7) mapped to (Standard & Poors & Fitch BB+ to C & Moody's Ba1 to C) and default grades are (8-10).

	GIBCR	Moody's	S&P	Fitch
Investment Grade	1	AAA	AAA	AAA
	2+	Aa1	AA+	AA+
	2	Aa2	AA	AA
	2-	Aa3	AA-	AA-
	3+	A1	A+	A+
	3	A2	A	A
	3-	A3	A-	A-
	4+	Baa1	BBB+	BBB+
	4	Baa2	BBB	BBB
	4-	Baa3	BBB-	BBB-
Sub-Investment Grade	5+	Ba1	BB+	BB+
	5	Ba2	BB	BB
	5-	Ba3	BB-	BB-
	6+	B1	B+	B+
	6	B2	B	B
	6-	B3	B-	B-
	7	Caa - C	CCC - C	CCC - C
	8 - 10	-	D	D

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23. CR4 - Standardised approach – credit risk exposure and Credit Risk Mitigation (CRM) effects

	SAR 000's	a	b	c	d	e	f
		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	Asset classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
01	Sovereigns and their central banks	10,921,267		10,921,267			0%
02	Non-central government public sector entities		3,283		657	131	20%
04	Banks	1,380,962	4,633,104	1,390,627	1,887,930	1,294,148	39%
06	Corporates	17,919,284	31,608,590	17,909,619	4,905,644	22,404,366	98%
07	Regulatory retail portfolios	716,321		716,321		716,321	100%
10	Equity	370,052		370,052		370,052	100%
11	Past-due loans	353,639		353,639		384,255	109%
13	Other assets	1,181,117	6,017	1,181,117	3,008	575,201	49%
	Total	**32,842,642**	**36,250,994**	**32,842,642**	**6,797,239**	**25,744,474**	**65%**

24. CR5 - Standardised approach – exposures by asset classes and risk weights

	SAR 000's	a	b	c	d	e	f	g	h	j
	Asset classes/ Risk weight*	0%	10%	20%	35%	50%	85%	100%	150%	Total credit exposures amount (post CCF and post-CRM)
01	Sovereigns and their central banks	10,921,267								10,921,267
02	Non-central government public sector entities			657						657
04	Banks			1,409,634		1,713,403		155,520		3,278,557
06	Corporates	43,044		1,808		100,264	2,108,477	20,561,670		22,815,263
07	Regulatory retail portfolios							716,321		716,321
10	Equity							370,052		370,052
11	Past-due loans							292,405	61,234	353,639
13	Other assets	608,925						575,200		1,184,125
	Total	**11,573,236**		**1,412,099**		**1,813,667**	**2,108,477**	**22,671,168**	**61,234**	**39,639,881**

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25. CCRA – Qualitative disclosure related to counterparty credit risk

a) Risk Management objectives and policies related to Counterparty credit risk, including:

Counterparty credit risk is the risk that a counterparty to a contract in the interest rate, foreign exchange, commodity, equity or credit markets defaults prior to the maturity of the contract. Counterparty credit risk arises in both the trading book and the banking book.

b) The method used to assign the operating limits defined in terms of internal capital for counterparty credit exposure and for CCP exposures;

The counterparty credit risk for derivative and foreign exchange instruments is subject to credit limits on the same basis as other credit exposures

c) Policies relating to guarantees and other risk mitigants and assessments concerning counterparty risk, including exposures towards CCPs;

Risk mitigation techniques are widely used to reduce exposure to single counterparties. The most common risk mitigation technique for derivative and foreign exchange-related exposure is the use of master netting agreements, which allow the bank to net positive and negative replacement values of contracts under the agreement in the event of default of the counterparty.

d) Policies with respect to wrong way exposures;

Wrong way risk is the risk that occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty. The Bank's SRMC approves all new products. As part of its approval process, the SRMC ensures that new treasury products will not result in wrong way risk.

e) The impact in terms of amount of collateral that the bank would be required to provide given a credit Rating downgrade.

Not Applicable. Existing derivates contracts that Bank is part to do not have provisions for posting additional collaterals in case of a credit rating downgrade.

26. CCR1 - Analysis of counterparty credit risk (CCR) exposure by approach

		a	b	c	d	e	f
	SAR 000's	Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
1	SA-CCR (for derivatives)	173,483	50,673		1.4	313,818	283,044
2	Internal Model Method (for derivatives and SFTs)						
3	Simple Approach for credit risk mitigation (for SFTs)						
4	Comprehensive Approach for credit risk mitigation (for SFTs)						
5	VaR for SFTs						
6	**Total**						**283,044**

27. CCR2 - Credit valuation adjustment (CVA) capital charge

		a	b
	SAR 000's	EAD post-CRM	RWA
	Total portfolios subject to the Advanced CVA capital charge		
1	(i) VaR component (including the 3×multiplier)		
2	(ii) Stressed VaR component (including the 3×multiplier)		
3	All portfolios subject to the Standardised CVA capital charge	313,818	133,088
4	Total subject to the CVA capital charge	313,818	133,088

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28. CCR3 - Standardised approach – CCR exposures by regulatory portfolio and risk weights

SAR 000's	a	b	c	d	e	f	g	h	i
Regulatory portfolio/ Risk weight	0%	10%	20%	50%	85%	100%	150%	Others	Total credit exposures
Banks			1,387	53,828					55,215
Corporates					18,332	240,271			258,603
Total	**0**	**0**	**1,387**	**53,828**		**240,271**			**313,818**

29. CCR8 - Exposures to central counterpartiesf

	SAR 000's	a	b
		EAD (post-CRM)	RWA
1	**Exposures to QCCPs (total)**		**-**
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	-	-
3	(i) OTC derivatives		
4	(ii) Exchange-traded derivatives		
5	(iii) Securities financing transactions		
6	(iv) Netting sets where cross-product netting has been approved		
7	Segregated initial margin		
8	Non-segregated initial margin		
9	Pre-funded default fund contributions		
10	Unfunded default fund contributions		
11	**Exposures to non-QCCPs (total)**	313,818	283,044
12	Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which	313,818	283,044
13	(i) OTC derivatives	313,818	283,044
14	(ii) Exchange-traded derivatives		
15	(iii) Securities financing transactions		
16	(iv) Netting sets where cross-product netting has been approved		
17	Segregated initial margin		
18	Non-segregated initial margin		
19	Pre-funded default fund contributions		
20	Unfunded default fund contributions		

30. MRA - Qualitative disclosure requirements related to market risk

Market risk is the risk of loss due to adverse changes in interest rates, foreign exchange rates, commodity prices, equity prices and market conditions, such as liquidity. The principal market risks to which the Bank is exposed are equity risk, interest rate risk and foreign exchange risk associated with its trading, investment and asset and liability management activities.

a) Strategies and processes of the Bank

The Bank's trading and foreign exchange activities principally comprise trading in foreign exchange and derivative financial instruments. Derivative financial instruments predominantly include forwards and swaps in the interest rate and foreign exchange markets.

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30. MRA - Qualitative disclosure requirements related to market risk (continued)

The Bank adopts a robust Risk Management Framework to comply with the Market Risk Strategy that address the policies and guidelines for the key processes underlying the identification, assessment, measurement, monitoring reporting and control of market risk, including:

- Market risk planning and assessment to determine the nature and level of market risk exposure that the Bank is permitted to undertake in light of its strategy and risk appetite and maintains, among other things, a rigorous process of security selection and approval;
- Value-at-risk analysis to provide a comprehensive and consistent measure of the Bank's market risk exposure to adverse market movements;
- Limit management to monitor portfolio concentrations, size of open positions and maximum allowable losses that the Bank could face on those positions;
- Stress testing to assess and manage the risks associated with extreme market movements on the market values of the portfolios;
- Prudent valuation process to determine the mark-to-market or fair values of market risk related financial instruments and derivatives and maintain data quality;

b) Structure and organisation of the market risk management function

The Bank has established a robust risk governance structure within the Bank's Risk Strategy to ensure that all material market risks are managed and mitigated. The Bank maintains a prudent and disciplined approach to market risk taking by upholding a well thought out Risk Appetite Statement, comprehensive market risk management policies and processes. Below are the principal elements of the Bank's market risk governance structure:

- Board of Directors (BoD) approve Bank's overall market risk strategy and risk appetite
- The Board Risk Policy Committee (BRPC) assist the BoD in ensuring that the Bank has an adequate market risk management and risk control framework in place to realise the overall risk strategy and risk appetite
- Market Risk and Finance are responsible for maintaining the Bank's market risk reporting framework which includes monitoring of the BoD approved VaR and other market risk limits. All limits are reported to ALCO and BRPC on a monthly and quarterly basis respectively.

c) Scope and nature of risk reporting

A key element in the Bank's market risk management framework is the estimation of potential future losses that may arise from adverse market movements. The Bank utilises Value-at-Risk (VaR) to estimate such losses. The VaR is derived from quantitative models that use statistical and simulation methods that take account of all market rates and prices that may cause a change in a position's value. These include interest rates, foreign exchange rates and equity prices, their respective volatilities and the correlations between these variables.

The VaR takes account of potential diversification benefits of different positions both within and across different portfolios. Consistent with general market practice, VaR is computed for all financial instruments for which there are readily available daily prices or suitable proxies. VaR is viewed as an effective risk management tool and a valuable addition to the non-statistically based limit structure. It permits a consistent and uniform measurement of market risk across all applicable products and activities. Exposures are monitored against a range of limits both by risk category and portfolio and are regularly reported to and reviewed by senior management and the BoD.

31. MR1 - Market risk under standardised approach

		a
	SAR 000's	Capital charge in SA
1	General interest rate risk	
2	Equity risk	35,914
3	Foreign exchange risk	6,260
4	Commodity risk	
5	Credit spread risk – non-securitisations	
6	Credit spread risk – securitisations (non-correlation trading portfolio)	
7	Credit spread risk – securitisation (correlation trading portfolio)	
8	Default risk – non-securitisations	
9	Default risk – securitisations (non-correlation trading portfolio)	
10	Default risk – securitisations (correlation trading portfolio)	
11	Residual risk add-on	
12	**Total**	**42,175**

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32. IRRBBA - IRRBB risk management objectives and policies

a) A description of how the Bank defines IRRBB for purposes of risk control and measurement.

Interest rate risk arises from fluctuations in interest rates that lead to risk of losses. The Bank takes into consideration re-pricing, basis and option risks for the purposes of IRRBB. The Bank does not have any explicit rate options on its banking book and has assessed the prepayment and early redemption optionalities on its banking book to be immaterial.

b) A description of the Bank's overall IRRBB management and mitigation strategies.

The Bank's policy has been reviewed and endorsed by the Bank's Asset Liability Committee (ALCO), Board Risk Policy Committee (BRPC) and the Board of Directors (BoD).

The Bank's IRRBB management and mitigation strategies are as follows:

- BRPC is responsible for the oversight of the IRRBB management framework and the Bank's risk appetite for IRRBB
- The Bank's ALCO is responsible for the management of the IRRBB; which is to identify, measure, evaluate, and monitor the interest rate risk
- The Bank's risk appetite for IRRBB is considered in terms of the economic value of equity (EVE). The management have set trigger levels which are lower than the regulatory and the Bank's Board approved risk appetite, if triggered, Bank's management will take corrective measures to ensure adherence to the Board approved risk thresholds
- The Bank maintains its risk position within the desired level through entering into Interest Rate Hedges

c) The periodicity of the calculation of the Bank's IRRBB measures and a description of the specific measures that the Bank uses to gauge its sensitivity to IRRBB.

The Bank calculates the IRRBB on a quarterly basis and utilises the following specific measures to gauge its sensitivity to IRRBB.

- Interest rate gap
- Earnings Approach (NII at risk)
- Economic Value Approach (EVE at risk)
- Repricing Duration Gap
- DV01

The interest rate risk in the banking book is also taken into consideration as part of the Bank's annual ICAAP.

d) A description of the interest rate shock and stress scenarios that the Bank uses to estimate changes in the economic value and in earnings

The Bank applies the six interest rate shock scenarios as prescribed by the regulator to compute the ΔEVE and two regulatory interest rate shocks for ΔNII.

e) Where significant modelling assumptions used in the Bank's IMS

The modelling assumptions used for the Bank's IRRBB as disclosed are adopted for capital adequacy purpose.

f) A high-level description of how the Bank hedges its IRRBB, as well as the associated accounting treatment.

The Bank does not intend to take on excessive IRRBB and therefore restricts itself from taking on positions with repricing tenors longer than two years. For fixed rate assets with repricing tenors greater than two years, the Bank enters into IRS trades to swap them into three-month repricing positions. Similarly, on the liability side the Bank also hedges the term deposits with greater than six-month tenors to one month or three-month repricing positions. The Bank regularly assesses the effectiveness of these hedges through prospective and retrospective tests. It ensures that all critical terms of the hedged item and hedging instrument are perfectly matched to ensure effectiveness.

g) A high-level description of key modelling and parametric assumptions used in calculating ΔEVE and ΔNII in Table B

The Bank has carried out behavioural analysis on the historical data for those balance sheet items which are not amenable to standardisation. These include fixed rate retail loans with prepayment conditionality, retail term deposits with early redemption options and Non-maturing deposits (NMDs).

- **Non-Maturing Deposits (NMDs):** The Bank continuously observes the levels of its Call and Current account portfolios and identified the balances which have been with the Bank for over a two-year period. It then assigns a two-year tenor to 75% of this minimum level of balances on a conservative basis. The Bank also observes the portion which has remained with the Bank for over a six-month period and applies a three-month tenor on this portion on a conservative basis. The remaining balances are treated as non-core and slotted in overnight bucket.
- **Prepayment Rate of Customer Loans:** The retail loan portfolio of the Bank is non-material (<4%) and therefore no prepayment assumptions are considered.

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32. IRRBBA - IRRBB risk management objectives and policies (continued)

- **Retail Term Deposits:** Redemption behaviour of all the term deposits over the last 5 years were checked for early redemptions and was assessed to be non-material (<0.1%).
- **The Corporate Lending Portfolio** of the Bank consists largely of floating rate loans, fixed rate short tenor working capital and trade financing products. More than 95% of the corporate balances reprice or mature within one year and therefore impact of any prepayment is not considered material.
- **For Corporate Term Deposits,** the Bank ensures that any early redemption is penalised to recoup the full economic loss and hence no further analysis was conducted.

33. IRRBB1 - Quantitative information on IRRBB

Segment	Average Maturity
Retail NMDs	0.97 Years
Corporate NMDs	0.29 Years
Average	**0.33 Years**

The slotting of NMDs has been done till the repricing bucket of 2 years

SAR 000s	ΔEVE	ΔNII
Parallel shock up: 200 bps increase in interest rates	(70,898)	128,897
Parallel shock down: 200 bps decrease in interest rates	85,016	(128,897)
Steeper shock: short term interest rates down and longer term up	(42,089)	0
Flatter shock: short-term interest rates up and long-term down	25,836	0
Short-term interest rates shock up	(8,299)	0
Short-term interest rates shock down	8,246	0
Maximum	(70,898)	(128,897)
Total Capital	7,243,890	
EVE%	**-0.98%**	

34. REMA - Remuneration policy

NOMINATION & REMUNERATION COMMITTEE

The principal objective of the Committee is to help the Board in ensuring that the Bank's remuneration remain competitive for GIB to continue to attract, retain and motivate competent staff to achieve the strategy and objectives of the Bank. The responsibilities of the Committee, as stated in its mandate, also include, but are not limited to, the following:

Nomination matters:

1. Assessing the skills and competencies required on the Board, the Committees of the Board, and Senior Management.
2. Assessing from time to time the extent to which the required skills are represented on the Board and Senior Management.
3. Establishing processes for reviewing the performance of individual Directors and the Board as a whole.
4. Establishing processes for reviewing the performance of individual Senior Executives and Senior Management as a whole.
5. Overseeing Directors' corporate governance educational activities.
6. Establishing processes for the identification of suitable candidates for Senior Management, and approving individuals qualified to become members of Senior Management.
7. Establishing a succession plan for Senior Management.

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34. REMA - Remuneration policy (continued)

Remuneration matters:

Reviewing and approving or making recommendations to the Board in respect of:

1. The executive remuneration and incentive policy which includes the fixed and variable remuneration for approved persons, and material risk-takers.
2. Policies relating to recruitment, retention, performance measurement and separation for the Directors, CEO and Senior Management.
3. Approve, monitor and review the remuneration system to ensure the system operates as intended.
4. Approve the remuneration amounts for each approved person and material risk-taker; as well as total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits.
5. Review the stress testing and back testing results before approving the total variable remuneration to be distributed.

REMUNERATION

The Bank's total compensation policy, which includes the variable remuneration policy, sets out GIB's policy on remuneration for Directors and Senior Management, and the key factors that were taken into account in setting the policy.

The Bank adopts Sound Remuneration Practices in accordance with SAMA requirements. The Board approved the framework and incentive components. The key features of the remuneration framework are summarised below.

Remuneration strategy

The Bank's basic compensation philosophy is to provide a competitive level of total compensation to attract, retain and motivate qualified and competent employees. The Bank's variable remuneration policy is driven primarily by a performance-based culture that aligns employee interests with those of the Shareholders of the Bank. These elements support the achievement of set objectives through balancing reward for both short-term results and long-term sustainable performance. The strategy is designed to share its success and to align employees' incentives with the risk framework and risk outcomes.

The quality and long-term commitment of all employees is fundamental to the success of the Bank. The Bank therefore aims to attract, retain and motivate the very best people who are committed to maintaining a career with the GIB; and who will perform their role in the long-term interests of Shareholders. The Bank's reward package comprises the following key elements:

- Fixed pay
- Benefits
- Annual performance bonus
- Deferred bonus share plan

A robust and effective governance framework ensures that the Bank operates within clear parameters of its compensation strategy and policy. All compensation matters, and overall compliance with regulatory requirements, are overseen by the Nomination and Remuneration Committee of the Board (NRC).

The Bank's remuneration policy, in particular, considers the role of each employee; and has set guidance depending on whether an employee is a Material Risk Taker and/or an Approved Person in business line, control or support functions. An Approved Person is an employee whose appointment would require prior regulatory approval because of the significance of the role within the Bank; and an employee is considered a Material Risk Taker if they head up significant business lines, and any individuals within their control have a material impact on the Bank's risk profile.

To ensure alignment between what is paid to employees and the business strategy, GIB assesses Bank-wide, divisional and individual performance against annual and long-term financial and non-financial objectives, summarised in line with the business planning and performance management process. This takes into account adherence to the Bank's values, risk and compliance measures and, above all, acting with integrity. Altogether, performance is therefore judged not only on what is achieved over the short- and long-term; but also importantly on how it is achieved, as the latter contributes to the long-term sustainability of the business.

NRC role and focus

The NRC has oversight of all reward policies for the Bank's employees. The NRC is the supervisory and governing body for compensation policy, practices and plans. It is responsible for determining, reviewing and proposing variable remuneration policy for approval by the Board. It is responsible for setting the principles and governance framework for all compensation decisions. The NRC ensures that all persons must be remunerated fairly and responsibly. The remuneration policy is reviewed on a periodic basis to reflect changes in market practices, and the business plan and risk profile of the Bank.

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34. REMA - Remuneration policy (continued)

Scope of application of the remuneration policy

The principles of this remuneration policy apply on a Bank-wide basis.

Variable remuneration for staff

The variable remuneration is performance related and consists primarily of the annual performance bonus award. As a part of the staff's variable remuneration, the annual bonus reward consists of delivery of operational and financial targets set each year, the individual performance of the employees in achieving those targets, and their contribution to delivering the Bank's strategic objectives.

The Bank has adopted a Board-approved framework to develop a transparent link between variable remuneration and performance. The framework is designed on the basis that the combination of meeting both financial performance and achievement of other non-financial factors would, all other things being equal, deliver a target bonus pool for the employees, prior to consideration of any allocation to business lines and employees individually. In the framework adopted to determine the variable remuneration pool, the NRC aims to balance the distribution of the Bank's profits between Shareholders and employees.

The key performance metrics at the Bank level include a combination of short-term and long-term measures; and include profitability, solvency, liquidity and growth indicators. The performance management process ensures that all goals are appropriately cascaded down to respective business units and employees.

In determining the amount of variable remuneration, the Bank starts from setting specific targets, establishing market comparable bottom-up, setting a profit target and other qualitative performance measures that would result in a target top-down bonus pool. The bonus pool is then adjusted to take account of risk via the use of risk-adjusted measures.

The NRC carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The NRC demonstrates that its decisions are consistent with an assessment of the Bank's financial condition and future prospects.

The Bank uses a formalised and transparent process to adjust the bonus pool for quality of earnings. It is the Bank's objective to pay out bonuses out of realised and sustainable profits. If the quality of earnings is not strong, the profit base could be adjusted based on the discretion of the NRC.

For the Bank to have any funding for distribution of a bonus pool, thresholds of financial targets have to be achieved. The performance measures ensure that the total variable remuneration is generally considerably contracted where subdued or negative financial performance of the Bank occurs. Furthermore, the target bonus pool, as determined above, is subject to risk adjustments in line with the risk adjustment and linkage framework.

Remuneration of control functions

The remuneration level of staff in the control and support functions allows the Bank to employ qualified and experienced personnel in these functions. The Bank ensures that the mix of fixed and variable remuneration for control and support function personnel is weighted in favour of fixed remuneration. The variable remuneration of control functions is based on function-specific objectives, and is not to be determined by the individual financial performance of the business area they monitor.

The Bank's performance management system plays a major role in deciding the performance of the support and control units on the basis of the objectives set for them. Such objectives are more focused on non-financial targets that include risk, control, compliance and ethical considerations; as well as the market and regulatory environments, apart from value-adding tasks which are specific to each unit.

Variable remuneration for business units

The variable remuneration for the business units is primarily decided by the key performance objectives set through the performance management system of the Bank. Such objectives contain financial and non-financial targets, including risk control, compliance and ethical considerations, as well as the market and regulatory environments.

a) Information relating to the design and structure of remuneration process;

The Policy seeks to assist in creating an efficient process, by acting as a point of reference in relation to the variable remuneration policies and procedures followed by the HR Department within the Bank in compliance with the Saudi Central Bank's (SAMA) Rules on Compensation Practices ("SAMA Regulations").

Review and Approval of the Manual

Any material changes in the operating environment or business model, or changes in applicable laws shall trigger an immediate ad-hoc review to ensure that the Policy remains in line with the Bank's strategy, practices, and business context at all times.

Modifications to the Policy that result in major changes to the principles and rules underpinning variable remuneration shall be endorsed by the NRC and referred to the Board of Directors for approval. Procedural or minor changes, clarifications and operational mechanisms will be approved by NRC.

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34. REMA - Remuneration policy (continued)

Implementation

The Chief Human Resources Officer ("CHRO") shall be responsible for ensuring that the policies and procedures in this Policy are adhered to by the respective staff. Any exceptions to the policies and procedures shall have to be brought to the attention of the CHRO and signed off by him/ her and reported to the NRC. All material breaches shall be immediately reported to the CHRO who will report the event to the NRC for further action.

All employees of the Bank are also responsible for implementation of this Policy.

Applicable Law

The Policy is established in accordance with the Labour Laws in the Kingdom of Saudi Arabia.

Should there be any difference in substance or interpretation between this Policy and the Labour Laws or applicable SAMA regulations, then the Labour Laws and applicable SAMA regulations shall prevail.

General Principles

The variable remuneration policies and procedures set forth in this Policy are enforceable towards all employees in the Bank as applicable.

This Policy complements the Employment Contracts, except where the terms of the Employment Contract are more favourable (but subject to being compliant with the SAMA regulations).

Employees must be informed of these practices, policies and procedures upon negotiation and urged to sign an acknowledgement before accepting employment.

Any condition that contradicts with the provisions of this Policy, and any acquittal or reconciliation regarding the rights of an employee arising under this document and during the validity of the Employment Contracts shall be made null and void unless it is of more benefit to the employee (but subject to being compliant with the SAMA regulations).

GOVERNANCE OF VARIABLE REMUNERATION

Overview

It is the Bank's basic compensation philosophy to provide a competitive level of total compensation to attract, motivate and retain qualified and competent employees. The Bank's variable remuneration policy will be driven primarily by a performance based culture that aligns employee interests' with those of the shareholders of the Bank. The variable remuneration policy should ensure effective alignment of remuneration with prudent risk-taking by senior management in the conduct of business.

A robust and effective governance framework ensures that the Bank operates within clear parameters of its compensation strategy and policy. All compensation matters, and overall compliance with regulatory requirements, are overseen by the Governance, Nomination and Remuneration Committee of the Board (GNRC).

Design, approval and oversight of the variable remuneration policy

The Board of Directors must actively oversee the remuneration system's design and operation for senior management and risk-takers.

The Bank is governed by SAMA which prescribes certain guidance and regulations in relation to developing sound remuneration practices for high earners who are approved persons and material risk takers (together "covered staff"). For the purpose of this Policy, guidance will be issued specifically for high earners who are covered staff and the Bank's policy for other non-covered staff.

The GNRC must ensure all persons must be remunerated fairly and responsibly. The Bank's remuneration policies and practices must be designed to reduce employees' incentives to take excessive and undue risk. The GNRC will be responsible for approving the variable remuneration policy of the Bank, and overseeing its implementation.

In the design and oversight of the Bank's variable remuneration policies, the GNRC may take into account the inputs provided by all competent independent corporate functions, namely risk management, financial control, compliance, human resources and strategic planning.

The Bank's variable remuneration policy will be consistent with and promotes sound and effective risk management. The variable remuneration policy will not encourage excessive risk taking and should enable the Bank to achieve and maintain a sound capital base.

The GNRC will endorse and the Board of Directors will approve any subsequent material exceptions or changes to the variable remuneration policy and carefully consider and monitor their effects.

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34. REMA - Remuneration policy (continued)

Review of the remuneration policy

The GNRC ensures that the remuneration policy of the Bank will be reviewed on an annual basis at a minimum. Such central and independent reviews assess whether the overall remuneration system:

- operates as intended (in particular, that all agreed plans/programs are being covered; that the remuneration pay-outs are appropriate, and that the risk profile, long-term objectives and goals of the Bank are adequately reflected); and
- is compliant with applicable laws, regulations, principles and standards.

Where periodic reviews reveal that the remuneration system does not operate as intended or prescribed, the GNRC will ensure that a timely remedial plan is put in place.

Variable remuneration governance structure

The governance of the variable remuneration policies of the Bank rests with the GNRC of the Board. In addition to human resources department, the GNRC may engage for assistance a number of relevant control and support functions namely the risk management, finance and compliance departments.

The above functions shall work closely with the GNRC to assist in determining the overall variable remuneration strategy applicable to the Bank, having regard to the promotion of effective risk management. This will include establishing an effective variable remuneration framework to determine performance management, risk adjustment and the linkages to reward.

The procedures for setting variable remuneration should allow risk and compliance functions to have input where those functions have concerns regarding: 1) the impact on staff behaviour, and 2) the riskiness of the business undertaken.

b) Information relating to the ways in which risks are taken into account in the remuneration process;

Risk assessment framework

The risk assessment framework of GIB aligns variable remuneration to the risk profile of the Bank, and also ensures that the remuneration policy reduces employees' incentives to take excessive and undue risk. The Bank considers both quantitative measures and qualitative measures in the risk assessment process, and risk adjustments are applied to ensure that the Bank's remuneration policies are aligned to its risk appetite.

The NRC considers whether the variable remuneration policy is in line with the Bank's risk profile; and ensures that through the ex-ante and ex-post risk assessment framework and processes, remuneration practices where potential future revenues, whose timing and likelihood remain uncertain, are carefully evaluated.

Risk adjustments consider all types of risks, including intangible and other risks such as reputation risk, liquidity risk and the cost of capital. The Bank undertakes risk assessment to review financial and operational performance against the business strategy and risk performance, prior to distribution of the annual bonus. GIB ensures that total variable remuneration does not limit its ability to strengthen its capital base.

The bonus pool considers the performance of the Bank, which is considered within the context of its risk management framework. This ensures that the variable pay pool is shaped by risk considerations and Bank-wide notable events.

The size of the variable remuneration pool and its allocation within the Bank considers the full range of current and potential risks, including:

- The capital required to support the risks taken
- The level of liquidity risk assumed in the conduct of business
- Consistency with the timing and likelihood of potential future revenues incorporated into current earnings

The NRC keeps itself abreast of the Bank's performance against the risk management framework. The NRC will use this information when considering remuneration to ensure that return, risk and remuneration are aligned.

Risk adjustments

The Bank has an ex-post risk assessment framework, which is a qualitative assessment to back-test actual performance against risk assumptions.

In years where the Bank suffers material losses in its financial performance, the risk adjustment framework would work as follows:

- There would be considerable contraction of the Bank's total variable remuneration.
- At the individual level, poor performance by the Bank would mean individual KPIs are not met, and hence employee performance ratings would be lower.
- Reduction in value of deferred awards.
- Possible changes in vesting periods, and additional deferral applied to unvested rewards.
- Lastly, if the qualitative and quantitative impact of a loss incident is considered significant, a malus or clawback of previous bonus awards may be considered.

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34. REMA - Remuneration policy (continued)

Risk adjustments (continued)

The NRC, with Board approval, can rationalise and make the following discretionary decisions:

- Increase/ reduce the ex-post adjustment
- Consider additional deferrals or increase in the quantum of share awards
- Recovery through malus and clawback arrangements

Malus and clawback framework

The Bank's malus and clawback provisions allow the NRC to determine that, if appropriate, unvested elements under the deferred bonus plan can be forfeited/adjusted, or the delivered variable remuneration could be recovered in certain situations. The intention is to allow the Bank to respond appropriately if the performance factors, on which reward decisions were based, turn out not to reflect the corresponding performance in the longer-term. All deferred remuneration awards contain provisions that enable the Bank to reduce or cancel the awards of employees whose individual behaviour has had a materially detrimental impact on GIB during the concerned performance year. Any decision to take back an individual's award can only be taken by the NRC.

The Bank's malus and clawback provisions allow the Board to determine that, if appropriate, vested/unvested elements under the deferred bonus plan can be adjusted/cancelled in certain situations. These events include, but are not limited to, the following:

- Reasonable evidence of misbehaviour or material error by the employee causing harm to the Bank's reputation, or where the employee's actions have amounted to misconduct, incompetence or negligence.
- The employee's business unit suffers a material downturn in its financial performance, or a material risk management failure, or a material restatement of the financial statements of the Bank.
- The employee deliberately misleads the market and/or Shareholders in relation to the financial performance of the Bank.
- A significant deterioration in the financial health of the Bank, or the relevant line of business incurring losses.

Clawback can be used if the malus adjustment on the unvested portion is insufficient, given the nature and magnitude of the issue.

Components of variable remuneration

Variable remuneration has following main components:

Upfront cash	The portion of the variable remuneration that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.
Deferred cash	The portion of variable remuneration that is awarded and paid in cash on a pro-rata basis over a period of 3 years.

All deferred awards are subject to malus provisions.

c) Description of the ways in which the bank seeks to link performance during a performance measurement period;

The performance of all employees is evaluated in at the Year-end reviews. All employees receive constructive feedback on performance at the Mid-year performance 'check-point'. The performance evaluations of all employees are linked to set targets and measures stated in the Performance Score Card and recorded on-line in GIB's Performance Management System.

Performance is evaluated using the Scorecard methodology. Each employee agrees to certain objectives and is assessed during the year on the progress made on these objectives. Employees are also appraised against their business peers through a Calibration process which is applied to ensure fair and equitable performance evaluation.

Employees are assessed using GIB's On Track / Off Track assessment during the mid-year stage. The assessment provides a common standard for assessing and comparing performance and is used to drive consistency and fairness of performance assessment. The On Track / Off Track assessment has been defined as follows:

On Track:

- Meets or exceeds H1 performance and values-aligned behavioural expectations;
- Likely to receive a 'Good', 'Strong' or 'Top Performer' year-end performance assessment.

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34. REMA - Remuneration policy (continued)

Risk adjustments (continued)

Off Track:

- Does not meet H1 performance and/or Values- aligned behavioural expectations and;
- Needs to make improvement in order to receive a Good or Strong Year-End Performance Rating.

Employees are assessed against their performance using GIB's 5-point descriptive scale during the yearend. The scale has been defined as follows:

- Outstanding "Top Performer": Always exceeds performance expectations
- Excellent "Strong Performer": Frequently exceeds performance expectations
- Fully Effective "Good Performer": Achieves or mostly achieves performance expectations
- Partially Meets "Inconsistent Performer": Partially meet performance expectations
- Did Not Meet "Poor Performer": Does not meet performance expectations

The performance management methodology adapted at GIB focuses on the differentiation of individual performance and drives the variable reward strategy which encourages high performance.

The Bank uses a guided discretionary variable pay determination philosophy, once the bank financial results are produced, Management presents to the NRC a proposed overall variable pay pool which varies based on the bank overall financial performance.

The pool is adjusted based on each stream department results then further down a range is produced for each employee based on individual performance. Line managers then starts the allocation process within the guided ranges which ensures the differentiation between individual's recommendations based on the level of Individual performance. GIB overall pay philosophy is to "Pay for performance" therefore, by the current definition of performance levels explained above "Partially Meets" and "Did not Meets" are not awarded by bank policy.

d) Description of the ways in which the bank seeks to adjust remuneration to take account of longer team performance;

Explained under sections (a), (b) and (c)

e) Description of the ways in which the bank seeks to adjust remuneration to take account of longer team performance;

GIB offer a main form of variable remuneration (cash). Where applicable, employees with variable pay is subject to cash deferral over 3 years.

GIB also applies an incentive scheme to employees engaged in Retail Banking sales function. The scheme concentrates on junior employees only and are annually reviewed validated by HR, Business and approved by NRC.

GIB takes into perspective the business nature, employee level in addition to the total compensation factors when determining the individual's pay mix, this is validated and determined based on market benchmarking and other elements such as the individual performance and business performance. GIB pay mix ranges between 70/30 fixed to variable for covered staff (business line and control functions) and between 50/50 fixed to variable for CEO, Deputy CEO and five most highly paid in business functions.

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35. REM1 - Remuneration awarded during the financial year

	SAR 000's		a	b
	Remuneration amount		**Senior management**	**Other material risk-takers**
1	Fixed remuneration	Number of employees	16	103
2		Total fixed remuneration (3 + 5 + 7)	**15,627**	**44,274**
3		Of which: cash-based	15,627	44,274
4		Of which: deferred		
5		Of which: shares or other share-linked instruments	-	-
6		Of which: deferred		
7		Of which: other forms	-	-
8		Of which: deferred		
9	Variable remuneration	Number of employees	13	67
10		Total variable remuneration (11 + 13 + 15)	**5,420**	**8,658**
11		Of which: cash-based	4,572	8,658
12		Of which: deferred	1,286	848
13		Of which: shares or other share-linked instruments	848	-
14		Of which: deferred	811	-
15		Of which: other forms	-	-
16		Of which: deferred	-	-
17		**Total remuneration (2 + 10)**	**21,047**	**52,932**

36. REM2 - Special payments

There was no deferred renumeration paid by the bank during this year.

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37. REM3 - Deferred remuneration

SAR 000's	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	1,286				
Shares	811				
Cash-linked instruments					
Other					
Other material risk-takers					
Cash	848				
Shares					
Cash-linked instruments					
Other					
Total	**2,945**				

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