

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

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023



**CONSOLIDATED FINANCIAL STATEMENTS TOGETHER WITH INDEPENDENT AUDITORS'
REPORT TO THE SHAREHOLDERS**

CONTENTS

<u>NOTE</u>	<u>PAGE</u>
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	1
CONSOLIDATED STATEMENT OF INCOME	2
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	3
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	4
CONSOLIDATED STATEMENT OF CASH FLOWS	5-6
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	7-77
1. GENERAL	7
2. BASIS OF PREPARATION	8-9
3. MATERIAL ACCOUNTING POLICIES	10-33
4. CASH AND BALANCES WITH SAUDI CENTRAL BANK (SAMA)	34
5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS, NET	34
6. INVESTMENTS, NET	34-36
7. DERIVATIVES	37-40
8. LOANS AND ADVANCES, NET	41-44
9. OTHER ASSETS	45
10. FURNITURE, FIXTURES AND EQUIPMENT, NET	45
11. LEASES	46
12. INTANGIBLE ASSETS, NET	46
13. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS	47
14. CUSTOMERS' DEPOSITS	47
15. SUBORDINATED DEBT	47
16. OTHER LIABILITIES	48-49
17. SHARE CAPITAL	49
18. STATUTORY RESERVE	49
19. CONTINGENCIES AND COMMITMENTS	50-52
20. SPECIAL COMMISSION INCOME AND EXPENSE	52
21. FEE AND COMMISSION INCOME AND EXPENSE	53
22. EXCHANGE INCOME, NET	53
23. GAIN / (LOSS) ON INVESTMENTS HELD AT FVSI, NET	53
24. GAIN ON OTHER FINANCIAL INSTRUMENTS, NET	53
25. DIVIDEND INCOME	53
26. OTHER INCOME	53
27. SALARIES AND EMPLOYEES' RELATED EXPENSES	54
28. RENT AND PREMISES RELATED EXPENSES	54
29. DEPRECIATION AND AMORTISATION	55
30. OTHER GENERAL AND ADMINISTRATIVE EXPENSES	55
31. ZAKAT	55
32. CASH AND CASH EQUIVALENTS	55
33. FINANCIAL RISK MANAGEMENT	56-63
34. MARKET RISK	63-67
35. LIQUIDITY RISK	68-70
36. FAIR VALUES OF FINANCIAL INSTRUMENTS	71-73
37. CAPITAL RISK MANAGEMENT	73
38. RELATED PARTY TRANSACTIONS	73-74
39. CAPITAL ADEQUACY	74
40. PROFIT SHARING INVESTMENT ACCOUNTS	75-76
41. IBOR TRANSITION (INTEREST RATE BENCHMARK REFORMS)	77
42. INVESTMENT MANAGEMENT AND BROKERAGE SERVICES	77
43. EVENTS AFTER THE REPORTING DATE	77
44. BOARD OF DIRECTORS' APPROVAL	77



**Ernst & Young Professional Services
(Professional LLC)**

Adeer Tower, 15th Floor
Prince Turki Bin Abdulaziz Street, Al Khobar Corniche
P.O. Box 3795
Al Khobar 31952
Kingdom of Saudi Arabia
Head Office – Riyadh



KPMG Professional Services

16th Floor, Al-Barghash Tower
6189 Prince Turkey Road, Al Kurnaish
P.O. Box 4803
Al Khobar, 34412 - 3146
Kingdom of Saudi Arabia
Headquarters in Riyadh

**Independent auditors' report to the shareholders of Gulf International Bank – Saudi Arabia (A Saudi Closed Joint Stock Company)
Report on the audit of the consolidated financial statements**

Opinion

We have audited the consolidated financial statements of Gulf International Bank – Saudi Arabia (“the Bank”) and its subsidiaries (collectively referred to as “the Group”), which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2023, its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the 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 Chartered and Professional Accountants (“SOCPA”) (collectively referred to as “IFRS that are endorsed in the Kingdom of Saudi Arabia”).

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing (“ISA”) that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) that is endorsed in the Kingdom of Saudi Arabia (“the Code”), that is relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with that Code. 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 Group's 2023 Annual Report

Other information consists of the information included in the Group's 2023 annual report, other than the consolidated financial statements and our auditors' report thereon. The management is responsible for the other information in its annual report. The Group's 2023 annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Ernst & Young Professional Services (Professional LLC)
Paid-up capital (SR 5,500,000 – Five million five hundred thousand Saudi Riyal)
C.R. No. 2051058792
Tel: +966 13 840 4600
ey.ksa@sa.ey.com

Fax: +966 13 882 0087
ey.com

KPMG Professional Services
(Professional Closed Joint Stock Company)
Paid-up capital SR 40,000,000
Licence No. 46/11/323 issued on 11/3/1992
C.R. No. 2051062328



Independent auditors' report to the shareholders of Gulf International Bank – Saudi Arabia (A Saudi Closed Joint Stock Company) (continued)
Report on the audit of the consolidated financial statements (continued)

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by SOCPA, the provisions of Companies' Law, Banking Control Law in the Kingdom of Saudi Arabia and Bank's By-Laws, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' responsibilities for the audit of the consolidated financial statements

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

As part of an audit in accordance with ISA 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 consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal 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 Group's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Independent auditors' report to the shareholders of Gulf International Bank – Saudi Arabia (A Saudi Closed Joint Stock Company) (continued)
Report on the audit of the consolidated financial statements (continued)

Auditors' responsibilities for the audit of the consolidated financial statements (continued)

- Conclude on the appropriateness of 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

Report on other legal and regulatory requirements

Based on the information that has been made available to us, nothing has come to our attention that causes us to believe that the Bank was not in compliance, in all material respects, with the provisions of Companies' Law, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-laws, in so far as they affect the preparation and presentation of the consolidated financial statements for the year ended 31 December 2023.

Ernst & Young Professional Services



Marwan S. AlAfaliq
Certified Public Accountant
License No. 422



8 Ramadan 1445H
18 March 2024

KPMG Professional Services



Nasser Ahmed Al Shutairy
Certified Public Accountant
License No. 454



**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2023
(AMOUNTS IN SAR'000)**

	Note	2023	2022
ASSETS			
Cash and balances with Saudi Central Bank (SAMA)	4	6,667,497	5,150,826
Due from banks and other financial institutions, net	5	2,365,409	4,534,002
Investments, net	6	9,105,539	6,792,402
Positive fair value of derivatives	7	316,414	417,480
Loans and advances, net	8	27,299,961	24,790,737
Other assets	9	465,410	456,165
Furniture, fixtures and equipment, net	10	58,668	51,541
Right-of-use assets, net	11	233,276	184,629
Intangible assets, net	12	90,608	49,287
Total assets		46,602,782	42,427,069
LIABILITIES AND EQUITY			
Liabilities			
Due to banks and other financial institutions	13	3,856,211	4,188,042
Customers' deposits	14	32,105,619	29,595,010
Negative fair value of derivatives	7	250,613	331,559
Subordinated debt	15	1,504,072	-
Other liabilities	16	1,140,276	886,948
Lease liabilities	11	246,200	193,740
Total liabilities		39,102,991	35,195,299
Equity			
Equity attributable to the shareholders of the Bank			
Share capital	17	7,500,000	7,500,000
Statutory reserve	18	1,753	1,753
Fair value reserve		(2,482)	16,163
Retained earnings / (accumulated losses)		520	(286,146)
Total equity attributable to the shareholders of the Bank		7,499,791	7,231,770
Total equity		7,499,791	7,231,770
Total liabilities and equity		46,602,782	42,427,069

The consolidated financial statements were approved by the Board of Directors and signed on its behalf by :-



Abdulla Mohammed Al Zamil
Chairman



Abdulaziz A. Al-Helaissi
Chief Executive Officer



Mazen Faisal Azoony
Chief Financial Officer

The accompanying notes 1 to 44 form an integral part of these consolidated financial statements

**CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)**

	Note	<u>2023</u>	<u>2022</u>
Special commission income	20	2,638,973	1,213,782
Special commission expense	20	<u>(1,728,643)</u>	<u>(574,549)</u>
Net special commission income		910,330	639,233
Fee and commission income	21	306,666	257,348
Fee and commission expense	21	<u>(19,132)</u>	<u>(17,022)</u>
Net fee and commission income		287,534	240,326
Exchange income, net	22	76,771	71,091
Gain / (loss) on investments held at FVSI, net	23	57,245	(1,987)
Gain on other financial instruments, net	24	11,411	26,788
Dividend income	25	3,977	11,552
Other income	26	<u>2,221</u>	<u>11,378</u>
Total operating income		<u>1,349,489</u>	<u>998,381</u>
Salaries and employees' related expenses	27	(511,962)	(426,898)
Rent and premises related expenses	28	(12,608)	(8,249)
Depreciation and amortisation	29	(61,877)	(60,763)
Other general and administrative expenses	30	<u>(304,652)</u>	<u>(253,593)</u>
Total operating expenses before expected credit losses		<u>(891,099)</u>	<u>(749,503)</u>
Expected credit losses on:			
Loans and advances	8	(168,549)	(92,496)
Financial contingencies and commitments	19	(20,867)	(3,142)
Investments	6	<u>(1,362)</u>	<u>(174)</u>
Total expected credit losses		<u>(190,778)</u>	<u>(95,812)</u>
Total operating expenses		<u>(1,081,877)</u>	<u>(845,315)</u>
Net income for the year before zakat		267,612	153,066
Zakat charge	31	<u>(47,136)</u>	<u>(22,054)</u>
Net income for the year		<u>220,476</u>	<u>131,012</u>
Earnings per share (expressed in SAR per share)			
Basic and diluted earnings per share		<u>0.294</u>	<u>0.175</u>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)**

	<u>Note</u>	<u>2023</u>	<u>2022</u>
Net income for the year		220,476	131,012
Other comprehensive income / (loss)			
<i>Items that will not be reclassified to the consolidated statement of income in subsequent periods:</i>			
- Net change in fair value of FVOCI investments		41,403	(6,754)
- Re-measurement on defined benefit plans	16	<u>6,142</u>	<u>(10,033)</u>
Other comprehensive income / (loss) for the year		<u>47,545</u>	<u>(16,787)</u>
Total comprehensive income for the year		<u><u>268,021</u></u>	<u><u>114,225</u></u>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)**

	Share capital	Statutory reserve	Fair value reserve	Retained earnings / (accumulated losses)	Total equity
Balance at 1 January 2023	7,500,000	1,753	16,163	(286,146)	7,231,770
Net income for the year	-	-	-	220,476	220,476
<i>Other comprehensive income for the year</i>					
Net change in fair value of FVOCI investments	-	-	41,403	-	41,403
Remeasurement of defined benefit plan	-	-	-	6,142	6,142
Total other comprehensive income for the year	-	-	41,403	6,142	47,545
Total comprehensive income for the year	-	-	41,403	226,618	268,021
Disposal of FVOCI equity investments	-	-	(60,048)	60,048	-
Balance at 31 December 2023	7,500,000	1,753	(2,482)	520	7,499,791

	Share capital	Statutory reserve	Fair value reserve	Accumulated losses	Total equity
Balance at 1 January 2022	7,500,000	1,753	22,917	(407,125)	7,117,545
Net income for the year	-	-	-	131,012	131,012
<i>Other comprehensive loss for the year</i>					
Net change in fair value of FVOCI investments	-	-	(6,754)	-	(6,754)
Remeasurement of defined benefit plan	-	-	-	(10,033)	(10,033)
Total other comprehensive loss for the year	-	-	(6,754)	(10,033)	(16,787)
Total comprehensive (loss) / income for the year	-	-	(6,754)	120,979	114,225
Balance at 31 December 2022	7,500,000	1,753	16,163	(286,146)	7,231,770

The accompanying notes 1 to 44 form an integral part of these consolidated financial statements

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)**

	Note	2023	2022
OPERATING ACTIVITIES			
Net income before zakat		267,612	153,066
Adjustments to reconcile net income before zakat to net cash flow (used in) / from operating activities:			
Accretion / amortisation relating to debt investments	20	(354,116)	(148,340)
Amortisation relating to subordinated debt	20	4,072	-
Depreciation of furniture, fixtures and equipment	10	19,106	21,817
Amortisation of intangible assets	12	18,181	14,193
Depreciation of right-of-use assets	11(a)	24,590	24,753
Interest expense on lease liabilities	11(b)	13,010	11,031
Expected credit losses on:			
Financial contingencies and commitments	19	20,867	3,142
Loans and advances	8	168,549	92,496
Investments held at amortised cost	6	1,362	174
(Gain) / loss on investments held at FVSI	23	(57,245)	1,987
Gain on other financial instruments, net	24	(11,411)	(26,788)
End of service benefits	16(i)	16,381	12,292
Operating income before changes in operating assets & liabilities		<u>130,958</u>	<u>159,823</u>
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		(230,571)	12,969
Due from banks and other financial institutions		100	(55)
Positive fair value of derivatives		101,066	(245,936)
Loans and advances		(2,677,773)	(1,308,313)
Other assets		(9,245)	(48,201)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		(331,831)	1,861,125
Negative fair value of derivatives		(69,535)	108,883
Customers' deposits		2,510,609	2,358,550
Other liabilities		203,892	234,041
		<u>(372,330)</u>	<u>3,132,886</u>
Interest paid on lease liabilities	11(b)	(13,010)	(11,031)
Zakat paid		(23,556)	(23,178)
End of service benefits paid	16	(5,250)	(5,727)
Net cash (used in) / from operating activities		<u>(414,146)</u>	<u>3,092,950</u>
INVESTING ACTIVITIES			
Purchase of investments held at amortised cost		(5,605,002)	(11,767,228)
Matured investments held at amortised cost		3,464,907	10,987,840
Purchase of investments held at FVSI		(25,000)	(52,338)
Purchase of investments held at FVOCI		-	(3,750)
Proceeds from sale of investments held at FVOCI		300,918	-
Proceeds from sale of investments held at FVSI		2,442	52,338
Purchase of furniture, fixtures and equipment	10	(26,233)	(13,070)
Purchase of intangible assets	12	(59,502)	(25,221)
Net cash used in investing activities		<u>(1,947,470)</u>	<u>(821,429)</u>

The accompanying notes 1 to 44 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

	<u>Note</u>	<u>2023</u>	<u>2022</u>
FINANCING ACTIVITIES			
Payment of principal portion of lease liabilities	11(b)	(20,777)	(19,156)
Proceeds from issuance of subordinated debt		<u>1,500,000</u>	-
Net cash from / (used in) financing activities		<u>1,479,223</u>	<u>(19,156)</u>
Net change in cash and cash equivalents		(882,393)	2,252,365
Cash and cash equivalents at the beginning of the year		<u>8,110,176</u>	5,857,811
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	32	<u><u>7,227,783</u></u>	<u><u>8,110,176</u></u>
Special Commission received during the year		<u>2,504,749</u>	1,037,484
Special Commission paid during the year		<u>(1,691,652)</u>	<u>(324,079)</u>
Supplemental non-cash information			
Right-of-use assets		73,237	11,451
Lease Liabilities		73,237	11,451
Net changes in fair value of FVOCI investments		41,403	(6,754)

The accompanying notes 1 to 44 form an integral part of these consolidated financial statements

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)**

1. GENERAL

Gulf International Bank - Saudi Arabia (a Closed Joint Stock Company - incorporated in the Kingdom of Saudi Arabia) (the "Bank") was formed after conversion from a foreign branch in accordance with Ministerial resolution number 2007 dated 14 March 2018G, corresponding to 26 Jumada Al-Thani 1439H, and SAMA approval number 391000082125 dated 9 April 2018G, corresponding to 23 Rajab 1439H.

The Bank commenced its operations as a Closed Joint Stock Company on 3 April 2019G, corresponding to 27 Rajab 1440H. The Bank operates under Commercial registration number 2052001920 through its three locations in Riyadh, Jeddah and Dhahran. The address of the Bank's Head Office is as follows:

Gulf International Bank - Saudi Arabia
5515 Cooperative Council Road
Al Khuzama Area, unit No: 54, Al Khobar
Kingdom of Saudi Arabia

The Bank's provides services related to wholesale, commercial, and retail banking. The Bank also provides to its customers Shariah-compliant products that are approved and supervised by an independent Shariah Board established by the Bank.

Following are the subsidiaries of the Bank (collectively referred to as "the Group").

<u>Name of subsidiary</u>	<u>Ownership interest % held by the owners of the Bank</u>		
	<u>2023</u>	<u>2022</u>	<u>Country of incorporation</u>
GIB Capital Company (a)	100	100	Kingdom of Saudi Arabia
Dar Enjaz Gulf Real Estate Company (b)	100	100	Kingdom of Saudi Arabia
GIB KSA Markets Limited (c)	100	100	Cayman Islands

- a. GIB Capital Company - a limited liability company incorporated in Kingdom of Saudi Arabia under commercial registration no. 1010244294 provides financial advisory services in connection with equity placements, mergers, disposals and acquisitions, privatisations, debt capital market products and services, strategic debt advisory and asset management. GIB Capital's clients include institutional investors and high net worth ("HNW") individuals.
- b. Incorporated in the Kingdom of Saudi Arabia under commercial registration no.1010326338, issued in Riyadh. The Subsidiary was formed with the approval of SAMA for the purpose of dealing, managing and holding real estate on behalf of the Bank.
- c. A limited liability company incorporated in the Cayman Islands. The Company is engaged in derivatives trading and repo activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

2. BASIS OF PREPARATION

a) Statement of compliance

These consolidated financial statements of the Group have been prepared in compliance with the International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Chartered and Professional Accountants ("SOCPA") and the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia.

The new Companies Law issued through Royal Decree M/132 on 1/12/1443H (corresponding to 30 June 2022) (hereinafter referred as "the Law") came into force on 26/6/1444H (corresponding to 19 January 2023). For certain provisions of the Law, full compliance is expected not later than two years from 26/6/1444H (corresponding to 19 January 2023). The management has assessed the impact of the New Companies Law on the Group and believe to be insignificant.

b) Basis of measurement and presentation

These consolidated financial statements are prepared on a going concern basis under the historical cost convention except for the measurement at fair value of derivatives, investments held at fair value through the statement of income (FVSI) and fair value through the statement of other comprehensive income (FVOCI) 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 consolidated statement of financial position is presented in order of liquidity.

c) Going concern

The Group's management has performed an assessment of the Group's ability to continue as a going concern and is satisfied that the Group 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 Group's ability to continue as a going concern. Therefore, these consolidated financial statements continue to be prepared on a going concern basis.

d) Functional and presentation currency

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

e) Critical accounting judgements, estimates and assumptions

The preparation of the consolidated 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 Group's accounting policies. Such judgements, estimates, and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

2. BASIS OF PREPARATION (continued)

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

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 expected credit losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

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

- a.** 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; and
 - Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.
- b.** The selection of inputs for those models, and the interdependencies between those inputs such as macroeconomic scenarios and economic inputs.
- ii) Fair value Measurement (Note 3m)
 - iii) Classification of Financial assets (3di)
 - iv) Determination of control over investees (3z)
 - v) Define benefit plan (3s)
 - vi) Government grant (3e)
 - vii) Acquisition of subsidiary (3b / 3c)
 - viii) Lease accounting (3q)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

3. MATERIAL ACCOUNTING POLICIES

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

The material accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2022. The following accounting policies are applicable effective 1 January 2023 replacing, amending, or adding to the corresponding accounting policies set out in 2022 annual consolidated financial statements.

New standards, interpretations and amendments adopted by the Group

Following standard, interpretation or amendment are effective from the annual reporting period beginning on 1 January 2023 from the current year and are adopted by the Group, however, these does not have any impact on the consolidated financial statements of the year unless otherwise stated below:

**Standards,
interpretations,
amendments**

	Description	Effective date
IFRS 17, 'Insurance contracts'	This standard replaces IFRS 4, which permits a wide variety of practices in accounting for insurance contracts.	1 January 2023
Narrow scope amendments to IAS 1	Practice statement 2 and IAS 8 - The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.	1 January 2023
Amendment to IAS 12 - deferred tax related to assets and liabilities arising from a single transaction -	These amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.	1 January 2023
Amendment to IAS 12 - International tax reform - pillar two model rules -	These amendments give companies temporary relief from accounting for deferred taxes arising from the Organisation for Economic Co-operation and Development's (OECD) international tax reform. The amendments also introduce targeted disclosure requirements for affected companies.	1 January 2023
Amendments to IAS 8	Definition of accounting estimates	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2	The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies.	1 January 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

3. MATERIAL ACCOUNTING POLICIES (continued)

Accounting standards issued but not yet effective

Standards,
interpretations,
amendments

	Description	Effective date
Amendment to IFRS 16 - Leases on sale and leaseback	These amendments include requirements for sale and leaseback transactions in IFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted.	1 January 2024
Amendments to IAS 7 and IFRS 7 on Supplier finance arrangements	These amendments require disclosures to enhance the transparency of supplier finance arrangements and their effects on a company's liabilities, cash flows and exposure to liquidity risk. The disclosure requirements are the IASB's response to investors' concerns that some companies' supplier finance arrangements are not sufficiently visible, hindering investors' analysis.	1 January 2024
Amendment to IAS 1 - Non-current liabilities with covenants	These amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The amendments also aim to improve information an entity provides related to liabilities subject to these conditions.	1 January 2024
IFRS S1 & IFRS S2, 'General requirements for disclosure of sustainability-related financial information	This standard includes the core framework for the disclosure of material information about sustainability-related risks and opportunities across an entity's value chain.	1 January 2024 subject to endorsement from SOCPA
Amendments to IFRS 10 and IAS 28	Sale or contribution of Assets between an Investor and its Associate or Joint Ventures	Available for optional adoption/effective date deferred indefinitely

a. Basis of consolidation

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

3. MATERIAL ACCOUNTING POLICIES (continued)

a. Basis of consolidation (continued)

Subsidiaries are investees controlled by the Group. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

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

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in consolidated statement of income; and
- Reclassifies the parent's share of components previously recognised in OCI to consolidated statement of income or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

3. MATERIAL ACCOUNTING POLICIES (continued)

a. Basis of consolidation (continued)

All intra-group balances, transactions, income, and expenses are eliminated in full in preparing these consolidated financial statements.

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

The Group acts as Fund Manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the Fund (comprising any carried interests and expected management fees) and the investors rights to remove the Fund Manager. As a result, the Group has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated these funds.

b. Business combination under IFRS 3

The Group determines that it has acquired a business when the acquired set of activities and assets include an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired process is considered substantive if it is critical to the ability to continue producing outputs, and the inputs acquired include an organised workforce with the necessary skills, knowledge, or experience to perform that process or it significantly contributes to the ability to continue producing outputs and is considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the statement of statement of income in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in statement of income.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

3. MATERIAL ACCOUNTING POLICIES (continued)

b. Business combination under IFRS 3 (continued)

Accounting for business combinations under IFRS 3 only applies if it is considered that a business has been acquired. Under IFRS 3, 'Business combinations', a business is defined as an integrated set of activities and assets conducted and managed for the purpose of providing a return to investors or lower costs or other economic benefits directly and proportionately to policyholders or participants. A business generally consists of inputs, processes applied to those inputs, and resulting outputs that are, or will be, used to generate revenues. If goodwill is present in a transferred set of activities and assets, the transferred set is presumed to be a business.

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

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

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

c. Business combination under common controlled transactions

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

3. MATERIAL ACCOUNTING POLICIES (continued)

d. Financial instruments

i) Classification of financial assets

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

Financial asset at amortised cost

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

- 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 amount outstanding.

Financial asset at FVOCI

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

- 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 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 consolidated statement of income.

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

Financial asset at FVSI

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVSI.

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

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

ii) Business model assessment

The Group 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 Group's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

3. MATERIAL ACCOUNTING POLICIES (continued)

d. Financial instruments (continued)

ii) Business model assessment (continued)

- How managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are 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 Group's original expectations, the Group 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 FVSI because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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

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

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

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

Designation at fair value through consolidated statement of income

At initial recognition, to eliminate or significantly reduces the accounting mismatch, the Group may irrevocably designate certain financial assets at FVSI.

iii) Classification of financial liabilities

The Group 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 special commission rate ("ESCR").

iv) Derecognition

The Group derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

3. MATERIAL ACCOUNTING POLICIES (continued)

d. Financial instruments (continued)

iv) Derecognition (continued)

Financial assets

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in consolidated 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 Group retains all or substantially all of the risks and rewards of ownership of such assets.

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

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

Financial liabilities

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

v) Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised, and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- Fees that are considered in determining the fair value of the new financial asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- Other fees are included in consolidated statement of income as part of the gain or loss on derecognition.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the consolidated 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 special commission income.

Financial liabilities

The Group derecognizes a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in statement of income. If the modification of a financial liability is not accounted for as derecognition, then the amortized cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognized in consolidated statement of income. For financial liabilities, the Group considers a modification to be substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

3. MATERIAL ACCOUNTING POLICIES (continued)

d. Financial instruments (continued)

vi) Impairment

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

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

12-month ECL 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. Financial instruments for which 12-month ECL are recognised are referred to as 'Stage 1 financial instruments'. Financial instruments allocated to Stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit-impaired. Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument or the maximum contractual period of exposure. Financial instruments for which lifetime ECL are recognised but that are not credit-impaired are referred to as 'Stage 2 financial instruments'. Financial instruments allocated to stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit-impaired. Financial instruments for which the lifetime ECL are recognised and that are credit-impaired are referred to as 'Stage 3 financial instruments'.

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 Group expects to receive);
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

When discounting future cash flows, the following discount rates are used:

- Financial assets other than purchased or originated credit-impaired (POCI) financial assets: the original effective interest rate or an approximation thereof;
- POCI assets: a credit-adjusted effective interest rate
- Undrawn loan commitments: the effective interest rate, or an approximation thereof, that will be applied to the financial asset resulting from the loan commitment; and
- Financial Guarantee contracts issued: the rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

3. MATERIAL ACCOUNTING POLICIES (continued)

d. Financial instruments (continued)

vi) Impairment (continued)

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 special commission rate of the existing financial asset.

Credit-impaired financial assets

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

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

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- The disappearance of an active market for a security because of financial difficulties.

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

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

- The market's assessment of creditworthiness as reflected in the bond yields;
- The rating agencies' assessments of creditworthiness;
- The country's ability to access the capital markets for new debt issuance;
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness; and
- 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.

POCI financial assets

POCI financial assets are assets that are credit-impaired on initial recognition. For POCI assets, lifetime ECL are incorporated into the calculation of the effective interest rate on initial recognition. Consequently, POCI assets do not carry impairment allowance on initial recognition. The amount recognized as a loss allowance subsequent to initial recognition is equal to the changes in lifetime ECL since initial recognition of the asset. flows of the financial asset have occurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

3. MATERIAL ACCOUNTING POLICIES (continued)

d. Financial instruments (continued)

vi) Impairment (continued)

Credit cards and other revolving facilities

Group's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Group has the right to cancel and/or reduce the facilities with one day's notice. The Group does not limit its exposure expectations of customer behaviour, the likelihood of default and its future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Group's expectations, the period over which the Group calculates ECL for these products, is five years for corporate and seven years for retail products. The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade, but greater emphasis is also given to qualitative factors such as changes in usage.

The interest rate used to discount the ECL for credit cards is based on the average effective interest rate that is expected to be charged over the expected period of exposure to the facilities. This estimation takes into account that many facilities are repaid in full each month and are consequently not charged interest. The calculation of ECL, including the estimation of the expected period of exposure and discount rate is made, on an individual basis for corporate and on a collective basis for retail products.

The collective assessments are made separately for portfolios of facilities with similar credit risk characteristics.

Presentation of allowance for ECL in the consolidated statement of financial position

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

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets; and
- Loan commitments and financial guarantee contracts: generally, as a provision.

Where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Write-off

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

vii) Financial guarantees, letter of credits and loan commitments

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. The premium received is recognised in the income statement in Net fees and commission income on a straight line basis over the life of the guarantee

Loan commitments and letter of credits' are firm commitments under which, over the duration of the commitments, the Group is required to provide credit under pre-specified terms and conditions. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

3. MATERIAL ACCOUNTING POLICIES (continued)

d. Financial instruments (continued)

vii) Financial guarantees, letter of credits and loan commitments (continued)

The nominal contractual value of financial guarantees, letters of credit and loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position. The nominal values of these instruments together with the corresponding ECL is recorded.

Financial guarantees issued or commitments to provide loan at a below market interest rate are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognized less, where appropriate, the cumulative amount of income recognized in accordance with the principle of ISFRS 15. Other loan commitments issued are measured at the sum of (i) the loss allowance determined in accordance with IFRS 9 and (ii) the amount of any fees received, less, if the commitment is unlikely to result in a specific lending arrangement, the cumulative amount of income recognized.

- The Group issued no loan commitment that are measured at FVSI.
- Liabilities arising from financial guarantees and loan commitments are included within provisions.

e. Government grant

The Group recognises a government grant related to income, if there is a reasonable assurance that it will be received and the Group 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 the consolidated statement of income on a systematic basis over the periods in which the Group 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 Group. Where the customer is the ultimate beneficiary, the Group only records the respective receivable and payable amounts.

f. Revenue / expense recognition

Special commission income and expense

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

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

The calculation of the effective special commission rate includes transaction costs and fees and points paid or received that are an integral part of the effective special commission 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 special commission 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 special commission income and expense, the effective special commission 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

3. MATERIAL ACCOUNTING POLICIES (continued)

f. Revenue / expense recognition (continued)

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

For financial assets that were credit-impaired on initial recognition, special commission income is calculated by applying the credit-adjusted effective special commission rate to the amortised cost of the asset. The calculation of special commission 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.

Fee and commission income

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

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.

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

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

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

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

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 FVSI 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 FVSI 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 FVSI.

g. Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership. These assets are continued to be measure in accordance with related accounting policies for investments held as FVSI, FVOCI, other investments held at amortised cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

3. MATERIAL ACCOUNTING POLICIES (continued)

g. Sale and repurchase agreements (continued)

The transactions are treated as collateralised borrowing and counter-party liability for amounts received under these agreements is included in "cash and balances with Saudi Central Bank (SAMA)" or "due to banks and other financial institutions" or "customers' 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 special commission basis. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognised in the consolidated statement of financial position, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in "cash and balances with Saudi Central Bank (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 special commission basis.

h. 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 Group accounts for any changes in fair values between the trade date and the settlement date in the same way 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 FVSI, transaction costs that are directly attributable to its acquisition or issue.

i. Rendering of services

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

The Group has concluded that revenue from rendering of various services related to share trading and fund management, trade finance, corporate finance and advisory and other banking services should be recognised at the point when services are rendered i.e. when performance obligation is satisfied. Whereas for free services related to credit card, the Group recognises revenue over the period of time.

j. 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 consolidated statement of financial position with transaction costs recognised in the consolidated 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 consolidated statement of income and disclosed in gain / (loss) on FVSI Financial Instruments, net. Derivatives held for trading also include those derivatives which do not qualify for hedge accounting.

ii) Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Group 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

3. MATERIAL ACCOUNTING POLICIES (continued)

j. Derivative financial instruments and hedge accounting (continued)

ii) Embedded derivatives (continued)

Separated embedded derivatives are measured at fair value with all changes in fair value recognised in the consolidated 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 dates to cashflows that are SPPI, and consequently the accounting of embedded derivatives are not applicable to financial assets.

iii) Hedge accounting

The Group 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 Group 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 Group will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an on-going basis.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken by comparing the hedging instrument's effectiveness in offsetting the changes in fair value or cash flows attributable to the hedged risk in the hedged item, both at inception and at each quarter end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated were offset by the hedging instrument in a range of 80% to 125% and were expected to achieve such offset in future periods. Hedge ineffectiveness is recognized in the statement of income in 'Net trading income'. For situations where the hedged item is a forecast transaction, the Group also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the statement of income

Fair value hedges

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

3. MATERIAL ACCOUNTING POLICIES (continued)
j. Derivative financial instruments and hedge accounting (continued)
iii) Hedge accounting (continued)

Micro fair value hedges

A fair value hedge relationship is a 'Micro fair value hedge' when the hedged item (or group of items) is a distinctively identifiable asset or liability hedged by one or a few hedging instruments. The financial instruments hedged for interest rate risk in a micro fair value hedge relationship include fixed rate corporate and small business loans, fixed rate debt instruments at FVOCI and fixed rate issued long-term deposits. These hedge relationships are assessed for prospective and retrospective hedge effectiveness on a monthly basis. If the hedging instrument expires or is sold, terminated or exercised, or when the hedge no longer meets the criteria for hedge accounting, or the Group decides to voluntarily discontinue the hedging relationship, the hedge relationship is discontinued prospectively. If the relationship does not meet the hedge effectiveness criteria, the Group discontinues hedge accounting from the last date on which compliance with hedge effectiveness was demonstrated. If the hedge accounting relationship is terminated for an item recorded at amortised cost, the accumulated fair value hedge adjustment to the carrying amount of the hedged item is amortised over the remaining term of the original hedge by recalculating the EIR. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the income statement. For fair value hedge relationships where the hedged item is not measured at amortised cost, such as debt instruments at FVOCI, changes in fair value that were recorded in the income statement whilst hedge accounting was in place are amortised in a similar way to amortised cost instruments using the EIR method. However, as these instruments are measured at their fair values in the statement of financial position, the fair value hedge adjustments are transferred from the income statement to OCI. There were no such instances in either the current year or in the comparative year.

Portfolio (macro) fair value hedges

The Group applies macro fair value hedging to its fixed rate mortgages. The Group determines hedged items by identifying portfolios of homogenous loans based on their contractual interest rates, maturity and other risk characteristics. Loans within the Identified portfolios are allocated to repricing time buckets based on expected, rather than contractual, repricing dates. The hedging instruments (pay fix/receive floating rate interest rate swaps) are designated appropriately to those repricing time buckets. Hedge effectiveness is measured on a monthly basis, by comparing fair value movements of the designated proportion of the bucketed loans due to the hedged risk, against the fair value movements of the derivatives, to ensure that they are within an 80% to 125% range. The aggregated fair value changes in the hedged loans are recognised as an asset in the Fair value hedge accounting adjustment on the face of the Statement of financial position. Should hedge effectiveness testing highlight that movements for a particular bucket fall outside the 80-125% range (i.e., the hedge relationship was ineffective for the period), no fair value hedge accounting adjustment is recorded for that month for that particular bucket. Regardless of the results of the retrospective hedge effectiveness testing, at the end of every month, in order to minimise the ineffectiveness from early repayments and accommodate new exposures, the Group voluntarily de-designates the hedge relationships and re-designates them as new hedges. At de-designation, the fair value hedge accounting adjustments are amortised on a straight-line basis over the original hedged life. The Group has elected to commence amortisation at the date of de-designation. IBOR reform Phase 2 provide relief for items within a designated group of items such as those forming part of the Group's macro fair value hedging strategy, that are amended as a result of IBOR reform. The reliefs allow the Group's hedging strategy to remain and not be discontinued. As items within the hedged group transition at different times from IBORs to RFRs, the Group transfers them to sub-groups of instruments that reference RFRs as the hedged risk.

Cash flow hedges

For designated and qualifying cash flow hedging, derivatives instruments in a hedge of a variability in cash flows attributable to a particular risk associated with recognised asset or a liability or a highly probable forecast transaction that could affect the statement of income, the portion of the gain or loss on the hedging instrument that is determined to be an effective portion is recognised directly in other comprehensive income and the ineffective portion, if any, is recognised in the (consolidated) statement of income. For cash flow hedges affecting future transactions, the gains or losses recognised in other reserves, are transferred to the (consolidated) statement of income in the same period in which the hedged item affects the (consolidated) statement of income. However, if the Group expects that all or a portion of a loss recognized in other comprehensive income will not be recovered in one or more future periods, it shall reclassify into the statement of income as a reclassification adjustment the amount that is not to be recognized.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

3. MATERIAL ACCOUNTING POLICIES (continued)

j. Derivative financial instruments and hedge accounting (continued)

iii) Hedge accounting (continued)

Cash flow hedges (continued)

Where the hedged forecasted transaction results in the recognition of a non-financial asset or a non-financial liability, then at the time such asset or liability is recognised the associated gains or losses that had previously been recognised directly in other comprehensive income are included in the initial measurement of the acquisition cost or other carrying amount of such asset or liability. When the hedging instrument is expired or sold, terminated, or exercised, or no longer qualifies for hedge accounting, or the forecast transaction is no longer expected to occur, or the Group revokes the designation then hedge accounting is discontinued prospectively. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognised in other comprehensive income from the period when the hedge was effective is transferred from equity to statement of income when the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur and affects the statement of income, the net cumulative gain or loss recognised in "other comprehensive income" is transferred immediately to the (consolidated) statement of income for the period.

k. Foreign currencies

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates 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.

The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or statement of income are also recognised in OCI or statement of income, respectively).

In determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of advance consideration.

The Group's consolidated financial statements are presented in Saudi Arabian Riyals, which is also the parent company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are translated into 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 special commission 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 consolidated statement of income.

l. Offsetting financial instruments

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position when there is a currently legally enforceable right to set off the recognised amounts and when the Group intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expenses are not offset in the consolidated statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

3. MATERIAL ACCOUNTING POLICIES (continued)

m. Fair value measurement

The Group measures financial instruments, such as, derivatives and equity instruments and non-financial assets, at fair value at each consolidated statement of financial position date. Also, fair values of financial instruments measured at amortised cost are disclosed in note 36.

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 Group.

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

The Group'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.

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 Group'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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

3. MATERIAL ACCOUNTING POLICIES (continued)

m. Fair value measurement (continued)

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

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

Collateral valuation

To mitigate its credit risks on financial assets, the Group seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The Group's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9. Collateral, unless repossessed, is not recorded on the Group's consolidated 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 Group 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 Group'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 Group's policy.

In its normal course of business, the Group 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 consolidated statement of financial position.

n. Furniture, fixtures and equipment

Furniture, fixtures and equipment are measured at cost less accumulated depreciation and accumulated impairment loss. 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 capitalized only when it is probable that the future economic benefits of the expenditure will flow to the Group. On-going repairs and maintenance are expensed as incurred.

The cost of furniture, fixtures and equipment is depreciated 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 and equipment	Four to five years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

3. MATERIAL ACCOUNTING POLICIES (continued)

n. Furniture, fixtures and equipment (continued)

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 consolidated 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.

o. 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 consolidated 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 consolidated 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. The Group does not have any intangible assets with indefinite useful lives.

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 consolidated statement of income.

p. Provisions

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

3. MATERIAL ACCOUNTING POLICIES (continued)

q. Accounting for leases

On initial recognition, at inception of the contract, the Group 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 Group and the Group can direct the usage of such assets.

At inception or on reassessment of a contract that contains a lease component, the Group 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 Group 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 Group applies the cost model, and measure Right-of-Use (RoU) 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, 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.

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 Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

After the commencement date, Group 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 special commission 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 Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group 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 consolidated 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 Group 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 Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

3. MATERIAL ACCOUNTING POLICIES (continued)

r. Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, "cash and cash equivalents" include notes and coins on hand, balances with SAMA excluding statutory deposits, and due from banks and other financial institutions with original maturity of three months or less which are subject to insignificant risk of changes in their fair value.

s. End of service benefits (defined benefit plan)

The Group 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 consolidated 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 consolidated statement of comprehensive income in the period in which they arise.

t. Short term employee benefits

Short term employee benefits are measured on an undiscounted basis and is expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short term cash bonus or profit-sharing plans if Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

u. Zakat

The Group is subject to Zakat in accordance with the regulations of the Zakat, Tax and Customs Authority ("ZATCA"). 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.

v. Value added tax ("VAT") and withholding tax

The Group collects VAT from its customers for qualifying services provided and makes VAT payments to its vendors for qualifying payments. On a monthly basis, net VAT remittances are made to the ZATCA representing VAT collected from its customers, net of any recoverable VAT on payments. Unrecoverable VAT is borne by the Group and is either expensed or in the case of property, equipment, and intangibles payments, is capitalized and either depreciated or amortized as part of the capital cost

The Group withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia, as required under Saudi Arabian Income Tax Law.

w. Investment management services

The Group offers investment services to its customers, through its subsidiary, which include management of certain investment funds in consultation with investment advisors. Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in the consolidated financial statements.

x. Customer loyalty program

The Group offers customer loyalty program (reward points / air miles herein referred to as "reward points"), which allows card members to earn points that can be redeemed from certain partners outlets. The Group allocates a portion of transaction price (interchange fee) to the reward points awarded to card members, based on the relative standalone selling price. The amount of revenue allocated to reward points is deferred and released to the consolidated statement of income when reward points are redeemed. The cumulative amount of contract liability related unredeemed reward points is adjusted over time based on actual experience and current trends with respect to redemption.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

3. MATERIAL ACCOUNTING POLICIES (continued)

y. Islamic banking products

In addition to the conventional banking, the Group 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 Group sells to a customer a commodity or an asset, which the Group has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin.
- (ii) Tawaraq is a form of Murabaha transactions where the Group purchases a commodity and sells it to the customer. The customer sells the underlying commodity at spot and uses the proceeds for his financing requirements.
- (iii) Istisna'a is an agreement between the Bank and a customer whereby the Bank sells to the customer a developed asset according to agreed upon specifications, for an agreed upon price.
- (iv) Ijarah is a an agreement whereby the Group, acting as a lessor, purchases or constructs an asset for lease according to the customer request (lessee), based on his promise to lease the asset for an agreed rent and specific period that could end by transferring the ownership of the leased asset to the lessee.

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

z. Determination of control over investees

The control indicators are subject to management's judgements, and can have a significant effect in the case of the Group's interests in investments funds. The Group acts as Fund Manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the Fund (comprising any carried profits and expected management fees) and the investor's rights to remove the Fund Manager. The Group has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated these funds.

aa. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where the Bank purchases the Bank's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the owners of the Bank as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of the Bank.

Shares held by the Bank are disclosed as treasury shares and deducted from contributed equity

ab. Deposits, debt securities issued and subordinated liabilities

When the Bank designates a financial liability as at FVSI, the amount of change in the fair value of the liability that is attributable to changes in its credit risk is presented in OCI as a liability credit reserve. On initial recognition of the financial liability, the Bank assesses whether presenting the amount of change in the fair value of the liability that is attributable to credit risk in OCI would create or enlarge an accounting mismatch in statement of income. This assessment is made by using a regression analysis to compare:

- the expected changes in the fair value of the liability related to changes in the credit risk; with
- the impact on statement of income of expected changes in fair value of the related instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

3. MATERIAL ACCOUNTING POLICIES (continued)

ac. Profit sharing investment account (PSIA)

The Bank offers Unrestricted and Restricted Investment Accounts based on fully sharia compliant concept.

In Mudaraba, the Bank (Mudarib) manages Investment Account Funds (IAH) along with its own share of investment, to an unrestricted joint investment pool. Funds from this unrestricted joint investment pool are utilized to provide financing to customers under Islamic modes and to invest in other Sharia compliant investments opportunities. Such information is available for all customers at Bank's website, branches, and call center.

Under Wakala arrangement, Bank accepts funds from investors as Wakeel and invests in Sharia compliant assets. Wakeel is entitled to a fixed fee as a lump sum or percentage of fund provided. Expected profit payout is mentioned to investors upfront while any return generated in excess of expected profit is retained by the Bank as Wakeel. Wakeel should bear the loss in case of Wakeel's default, negligence or violation of any terms and conditions of the Wakala agreement, otherwise the loss would be borne by the investor or Muwakil.

The Bank maintains necessary reserves as required by SAMA.

Any profits accrued out of the investment are shared between the two parties on a pre-agreed basis, while loss (if any) is borne by the Investor (Rab-ul-Maal). Operating expenses incurred by the Bank are not charged to investment account. In case of the loss resulting from the transactions in a jointly financed investment, such loss shall first be deducted from undistributed profits, if any. Any excess of such loss shall be deducted from Investment Risk Reserve (IRR). Any remaining of such loss shall be deducted from the total balance of fund available in the pool, as at that date, in the respective ratio of the Bank's and IAH's respective contribution to the fund.

The investment risk reserve is deducted from customer's share after allocating the Mudarib share of profit as per the approved policy in order to cater against future losses of equity of unrestricted investment accountholders. Investment risk reserve will revert to the investment accountholders as per terms and conditions of Mudaraba contract.

The profit equalization reserve is the amount the bank appropriates in excess of the profit to be distributed to equity of unrestricted accountholders before allocating the Mudarib share of income to maintain a certain level of return. Profit equalization reserve will revert to owner equity and unrestricted investment accountholders.

Unrestricted investment accountholders are commingled with Bank funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits. The administration expenses are only charged on the Bank expenses."

ad. Interest rate benchmark reform

If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortized cost changed as a result of interest rate benchmark reform, then the Group updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequences of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis - i.e. the basis immediately before the change.

When the changes were made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, the Group first updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. After that, the Group applied the policies on accounting for modifications to the additional changes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

4. CASH AND BALANCES WITH SAUDI CENTRAL BANK (SAMA)

	Note	2023	2022
Money market placement with SAMA	4.1	4,873,000	3,587,000
Statutory deposits	4.2	1,775,123	1,544,552
Cash in hand		15,693	15,784
Current account		3,681	3,490
		<u>6,667,497</u>	<u>5,150,826</u>

4.1 Money market placement with SAMA represents overnight reverse repo placement with SAMA that mature on 1 January 2024 (2022: 1 January 2023).

4.2 In accordance with the Banking Control Law and regulations issued by SAMA, the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its customer demand, savings, time and other deposits liabilities, 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 (note 32), when preparing the consolidated statement of cash flows.

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS, NET

	2023	2022
Current accounts	186,733	1,422,571
Money market placements	2,178,676	3,111,431
	<u>2,365,409</u>	<u>4,534,002</u>

The above includes Shariah based balances as below:

Murabaha placements	300,047	-
---------------------	---------	---

The credit quality of due from banks and other financial institutions is assessed using external credit rating agencies. The above due from banks and other financial institutions balances are neither past due nor impaired. Due from Banks and other financial institutions only includes balances with investment grade Banks and the expected credit losses are not material, therefore not disclosed separately.

6. INVESTMENTS, NET

a) Investment securities are classified as follows:

	Note	2023	2022
Investments held at amortised cost - gross	(6g)	8,788,433	6,294,222
Less: expected credit losses	(6h)	(2,597)	(1,235)
Investments held at amortised cost - net		8,785,836	6,292,987
Investments held at FVSI	(6e)	282,806	203,003
Investments held at FVOCI	(6f)	36,897	296,412
		<u>9,105,539</u>	<u>6,792,402</u>

b) Investment securities include Shariah based investments as follows:

	2023	2022
Investments held at amortised cost - Sukuk	5,069,999	4,590,429
Investments held at FVSI - Mutual funds	142,587	89,017
Investments held at FVOCI	26,565	289,529
Less: expected credit losses	(1,900)	(901)
	<u>5,237,251</u>	<u>4,968,074</u>

c) The analysis of investments by counterparty is as follows:

	2023	2022
Government and quasi government	7,713,842	5,485,459
Corporate	690,885	925,709
Banks and other financial institutions	703,409	382,469
Less: expected credit losses	(2,597)	(1,235)
	<u>9,105,539</u>	<u>6,792,402</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

6. INVESTMENTS (continued)

d) The analysis of the composition of investments is as follows

	2023		
	Quoted	Unquoted	Total
Debt securities - fixed-rate securities	5,157,715	3,302,081	8,459,796
Debt securities - floating-rate securities	253,366	75,271	328,637
Less: expected credit losses	(1,965)	(632)	(2,597)
Equities	51,452	10,332	61,784
Mutual Funds	257,919	-	257,919
	<u>5,718,487</u>	<u>3,387,052</u>	<u>9,105,539</u>

	2022		
	Quoted	Unquoted	Total
Debt securities - fixed-rate securities	4,153,915	1,730,043	5,883,958
Debt securities - floating-rate securities	335,014	75,250	410,264
Less: expected credit losses	(1,162)	(73)	(1,235)
Equities	319,900	-	319,900
Mutual Funds	179,515	-	179,515
	<u>4,987,182</u>	<u>1,805,220</u>	<u>6,792,402</u>

e) Investments held at fair value through statement of income (FVSI)

	2023	2022
Mutual funds	257,919	179,515
Equity investments	24,887	23,488
	<u>282,806</u>	<u>203,003</u>

f) Investments held at fair value through other comprehensive income (FVOCI)

	2023	2022
Equity investments	36,897	296,412

The FVOCI designation was made on the basis that the investments are expected to be held for the long-term for strategic purposes. During the year ended 31 December 2023, the Group disposed of certain investments measured at FVOCI and realised a total gain of SAR 60 million which has been transferred within the equity. These equity securities were disposed of due to a strategic decision by the investment committee.

The Following table shows the reconciliation from opening balances to the closing balances for level 3 fair value of FVOCI investments.

	2023	2022
Balance at 1 January	6,883	6,098
Further investments made	-	3,750
Net change in fair value	3,449	(2,965)
Balance at 31 December	<u>10,332</u>	<u>6,883</u>

g) The following table shows reconciliations of gross carrying amount from the opening to the closing balance of the investments held at amortised cost:

31 December 2023	Stage 1 (12-month ECL)	Total
Balance at 1 January	6,294,222	6,294,222
Net change	2,494,211	2,494,211
Balance at 31 December	<u>8,788,433</u>	<u>8,788,433</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

6. INVESTMENTS (continued)

g) Reconciliation of gross carrying amount from the opening to the closing balance (continued)

31 December 2022	Stage 1 (12-month ECL)	Total
Balance at 1 January	5,362,744	5,362,744
Net change	931,478	931,478
Balance at 31 December	6,294,222	6,294,222

h) The following table shows reconciliation of expected credit losses on investments held at amortised cost from the opening to the closing balance:

31 December 2023	Stage 1 (12-month ECL)	Total
Balance at 1 January	1,235	1,235
Net remeasurement of loss allowance	1,362	1,362
Balance at 31 December	2,597	2,597

31 December 2022	Stage 1 (12-month ECL)	Total
Balance at 1 January	1,061	1,061
Net remeasurement of loss allowance	174	174
Balance at 31 December	1,235	1,235

i) The following table shows the credit quality of the investments held at amortised cost:

31 December 2023	Stage 1 (12-month ECL)	Total
Grades 1-4 : low risk	8,788,433	8,788,433
	8,788,433	8,788,433

31 December 2022	Stage 1 (12-month ECL)	Total
Grades 1-4 : low risk	6,294,222	6,294,222
	6,294,222	6,294,222

j) Investments composition as per geography:

	2023		Total
	Domestic	International	
Investments held at amortised cost	8,671,065	114,771	8,785,836
Investments held at FVIS	282,806	-	282,806
Investments held at FVOCI	36,897	-	36,897
	8,990,768	114,771	9,105,539

	2022		Total
	Domestic	International	
Investments held at amortised cost	6,204,987	88,000	6,292,987
Investments held at FVIS	203,003	-	203,003
Investments held at FVOCI	296,412	-	296,412
	6,704,402	88,000	6,792,402

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

7. DERIVATIVES

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

a) Swaps

Swaps are commitments to exchange one set of cash flows for another. For 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 customized contracts transacted in the over-the-counter markets. Foreign currency and commission rate futures are transacted in standardized 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 a fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price.

Held for trading purposes

Most of the Group's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

7. DERIVATIVES (continued)

Held for hedging purposes (continued)

The Group has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange 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, Group uses derivatives for hedging purposes in order to adjust its own exposure to commission rate risks. This is generally achieved by hedging specific transactions as well as strategic hedging against overall statement of financial position exposures.

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

The Group 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 Group's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor market risk.

31 December 2023

<u>Derivative financial instruments</u>	Positive fair value	Negative fair value	Notional amount
Held for trading			
Commission rate swaps	104,874	(98,294)	4,963,381
Commission rate futures and currency options	121,012	(121,012)	13,590,469
Forward foreign exchange contracts	6,672	(5,700)	614,661
Others	24,147	(23,967)	361,406
Held as fair value hedges			
Commission rate swaps - investments	34,074	(1,640)	686,256
Commission rate swaps - loans	25,635	-	748,949
	316,414	(250,613)	20,965,122

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

7. DERIVATIVES (continued)

31 December 2022

<u>Derivative financial instruments</u>	Positive fair value	Negative fair value	Notional amount
<i>Held for trading</i>			
Commission rate swaps	177,232	(172,954)	10,145,434
Commission rate futures and currency options	136,765	(136,851)	7,635,631
Forward foreign exchange contracts	16,202	(15,393)	629,019
Others	4,037	(3,835)	329,413
<i>Held as fair value hedges</i>			
Commission rate swaps - investments	43,320	(87)	477,073
Commission rate swaps - loans	33,262	-	817,813
Commission rate swaps - deposits	6,662	(2,439)	999,586
	<u>417,480</u>	<u>(331,559)</u>	<u>21,033,969</u>

31 December 2023

<u>Derivative financial instruments</u>	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
<i>Held for trading</i>					
Commission rate swaps	-	-	3,113,413	1,849,968	4,963,381
Commission rate futures and currency options	-	888,269	9,378,572	3,323,628	13,590,469
Forward foreign exchange contracts	399,021	215,640	-	-	614,661
Others	257,561	43,844	60,001	-	361,406
<i>Held as fair value hedges</i>					
Commission rate swaps - investments	-	-	37,500	648,756	686,256
Commission rate swaps - loans	-	-	374,389	374,560	748,949
	<u>656,582</u>	<u>1,147,753</u>	<u>12,963,875</u>	<u>6,196,912</u>	<u>20,965,122</u>

31 December 2022

<u>Derivative financial instruments</u>	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
<i>Held for trading</i>					
Commission rate swaps	-	-	3,430,048	6,715,386	10,145,434
Commission rate futures and currency options	904,756	-	5,606,875	1,124,000	7,635,631
Forward foreign exchange contracts	1,990	627,029	-	-	629,019
Others	269,309	-	60,104	-	329,413
<i>Held as fair value hedges</i>					
Commission rate swaps - investments	-	-	146,503	330,570	477,073
Commission rate swaps - loans	-	-	442,609	375,204	817,813
Commission rate swaps - deposits	-	401,837	597,749	-	999,586
	<u>1,176,055</u>	<u>1,028,866</u>	<u>10,283,888</u>	<u>8,545,160</u>	<u>21,033,969</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

7. 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.

	Adjustments in the carrying amount of the hedge items	Notional amount of hedge item and instrument	Hedging instrument	Positive fair value	Negative fair value
31 December 2023					
<u>Hedged items</u>					
Investments at amortised cost	32,434	686,256	Commission rate swap	34,074	(1,640)
Loans at amortised cost	25,635	748,949	Commission rate swap	25,635	-
31 December 2022					
<u>Hedged items</u>					
Investments at amortised cost	43,233	477,073	Commission rate swap	43,320	(87)
Loans at amortised cost	33,262	817,813	Commission rate swap	33,262	-
Deposits	4,223	999,586	Commission rate swap	6,662	(2,439)

Approximately 58% (2022: 62%) of the positive fair value of the Group's derivatives are entered into with financial institutions and 42% (2022: 38%) of the positive fair value contracts are with non-financial institutions counterparties at the reporting date. Approximately 51% (2022: 75%) of the negative fair value of the Group's derivatives are entered into with financial institutions and 49% (2022: 25%) of the negative fair value contracts are with non-financial institutions counterparties at the reporting date. Derivative activities are mainly carried out under the Bank's treasury banking segment.

The Group, as part of its derivative management activities, has entered into a master agreement in accordance with the International Swaps and Derivatives Association (ISDA) directives. Under this agreement, the terms and conditions for derivative products purchased or sold by the Group are unified. As part of the master agreement, a Credit Support Annex (CSA) has also been signed. The CSA allows the Group to receive improved pricing by way of exchange of mark to market amounts in cash as collateral whether in favor of the Group or the counter party.

For commission rate swaps entered into with European counterparties, the Group, and the European counterparty both comply with the European Market Infrastructure Regulation (EMIR). EMIR is a body of European legislation for the central clearing and regulation of Over-the-Counter (OTC) derivatives. The regulation includes requirements for reporting of derivatives' contracts and implementation of risk management standards and establishes common rules for central counterparties and trade repositories. Accordingly, all such standardized OTC derivatives contracts are traded on exchanges and cleared through a Central Counter Party (CCP) through netting arrangements and exchanges of cash to reduce counter party credit and liquidity risk.

The positive and negative fair values of derivatives including CSA and EMIR cash margins have been netted/offset when there is a legally enforceable right to set off the recognised amounts and when the Group intends to settle on a net basis, or to realise the assets and settle the liability simultaneously.

The Bank execute all the derivatives with counterparties with a back to back transaction with the Parent, the management believe that hedging relationships are effective and portfolios are hedged rather than individual transaction level.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

8. LOANS AND ADVANCES, NET

a) The analysis of loans and advances is as follows:

31 December 2023	Commercial loans	Overdrafts	Retail loans	Total
Performing loans and advances	24,699,210	1,525,814	1,156,880	27,381,904
Non-performing loans and advances	564,824	-	26,472	591,296
Loans and advances, gross	25,264,034	1,525,814	1,183,352	27,973,200
Less: allowance for expected credit losses	(632,018)	(751)	(40,470)	(673,239)
Loans and advances, net	24,632,016	1,525,063	1,142,882	27,299,961

31 December 2022	Commercial loans	Overdrafts	Retail loans	Total
Performing loans and advances	21,632,155	1,837,919	1,329,765	24,799,839
Non-performing loans and advances	623,290	-	8,210	631,500
Loans and advances, gross	22,255,445	1,837,919	1,337,975	25,431,339
Less: allowance for expected credit losses	(612,668)	(1,059)	(26,875)	(640,602)
Loans and advances, net	21,642,777	1,836,860	1,311,100	24,790,737

b) Reconciliation of gross carrying amount:

31 December 2023	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL but not credit-impaired)	Stage 3 (lifetime ECL credit-impaired)	Total
Balance at 1 January 2023	23,858,497	941,342	631,500	25,431,339
Transfers during the year				
Transfer to Stage 1	440,602	(440,602)	-	-
Transfer to Stage 2	(735,244)	735,244	-	-
Transfer to Stage 3	(4,019)	(46,421)	50,440	-
	(298,661)	248,221	50,440	-
Written-off during the year	-	-	(135,915)	(135,915)
Net change during the year	2,802,459	(169,954)	45,271	2,677,776
Balance at 31 December 2023	26,362,295	1,019,609	591,296	27,973,200

31 December 2022	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL but not credit-impaired)	Stage 3 (lifetime ECL credit-impaired)	Total
Balance at 1 January 2022	22,349,026	1,204,609	578,072	24,131,707
<i>Transfers during the year</i>				
Transfer to Stage 1	57,932	(57,932)	-	-
Transfer to Stage 2	(2,233)	2,233	-	-
Transfer to Stage 3	(2,462)	(34,548)	37,010	-
	53,237	(90,247)	37,010	-
Written-off during the year	-	-	(8,681)	(8,681)
Net change during the year	1,456,234	(173,020)	25,099	1,308,313
Balance at 31 December 2022	23,858,497	941,342	631,500	25,431,339

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

8. LOANS AND ADVANCES, NET (continued)

c) Reconciliation of expected credit losses:

31 December 2023	Stage 1 (12- month ECL)	Stage 2 (lifetime ECL but not credit- impaired)	Stage 3 (lifetime ECL credit- impaired)	Total
Balance at 1 January 2023	76,354	148,430	415,818	640,602
<i>Transfers during the year</i>				
Transfer to Stage 1	13,134	(13,134)	-	-
Transfer to Stage 2	(2,795)	2,795	-	-
Transfer to Stage 3	(59)	(29,818)	29,877	-
	10,280	(40,157)	29,877	-
<i>Charge/ (reversal) during the year</i>				
Corporate	980	65,864	59,788	126,632
Retail	3,792	(645)	38,770	41,917
	4,772	65,219	98,558	168,549
<i>Written-off during the year</i>				
Corporate	-	-	(107,530)	(107,530)
Retail	-	-	(28,382)	(28,382)
	-	-	(135,912)	(135,912)
Balance at 31 December 2023	<u>91,406</u>	<u>173,492</u>	<u>408,341</u>	<u>673,239</u>
31 December 2022	Stage 1 (12- month ECL)	Stage 2 (lifetime ECL but not credit- impaired)	Stage 3 (lifetime ECL credit- impaired)	Total
Balance at 1 January 2022	61,364	171,311	324,112	556,787
<i>Transfers during the year</i>				
Transfer to Stage 1	982	(982)	-	-
Transfer to Stage 2	(28)	28	-	-
Transfer to Stage 3	(39)	(7,725)	7,764	-
	915	(8,679)	7,764	-
<i>Charge/ (reversal) during the year</i>				
Corporate	13,337	(14,082)	77,534	76,789
Retail	738	(120)	15,089	15,707
	14,075	(14,202)	92,623	92,496
<i>Written-off during the year</i>				
Corporate	-	-	-	-
Retail	-	-	(8,681)	(8,681)
	-	-	(8,681)	(8,681)
Balance at 31 December 2022	<u>76,354</u>	<u>148,430</u>	<u>415,818</u>	<u>640,602</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

8. LOANS AND ADVANCES, NET (continued)

d) Expected credit losses for the year:

	2023	2022
Corporate	126,632	76,789
Retail	41,917	15,707
Total	<u>168,549</u>	<u>92,496</u>

e) Details of Shariah based loans and advances:

	2023	2022
Corporate loans	15,038,744	14,735,946
Less: allowance for expected credit losses	(406,850)	(323,220)
	<u>14,631,894</u>	<u>14,412,726</u>
Credit cards	95,471	26,150
Less: allowance for expected credit losses	(4,447)	(1,059)
	<u>91,024</u>	<u>25,091</u>
Personal finance and others	1,087,881	1,311,825
Less: allowance for expected credit losses	(36,026)	(25,816)
	<u>1,051,855</u>	<u>1,286,009</u>

f) Credit quality of gross loans and advances:

31 December 2023	Stage 1 (12-	Stage 2	Stage 3	Total
	month ECL)	(lifetime ECL but not credit- impaired)	(lifetime ECL credit- impaired)	
Grades 1-4: Low risk	20,505,428	-	-	20,505,428
Grades 5-7: Fair / Moderate risk *	5,856,867	1,019,609	-	6,876,476
Grade 8: Substandard	-	-	80,781	80,781
Grade 9: Doubtful	-	-	486,635	486,635
Grade 10: Loss	-	-	23,880	23,880
	<u>26,362,295</u>	<u>1,019,609</u>	<u>591,296</u>	<u>27,973,200</u>
31 December 2022	Stage 1 (12-	Stage 2	Stage 3	Total
	month ECL)	(lifetime ECL but not credit- impaired)	(lifetime ECL credit- impaired)	
Grades 1-4: Low risk	19,238,750	-	-	19,238,750
Grades 5-7: Fair / Moderate risk *	4,619,747	941,342	-	5,561,089
Grade 8: Substandard	-	-	144,833	144,833
Grade 9: Doubtful	-	-	447,147	447,147
Grade 10: Loss	-	-	39,520	39,520
	<u>23,858,497</u>	<u>941,342</u>	<u>631,500</u>	<u>25,431,339</u>

* Grades 5-7: Fair / Moderate risk: These includes customers under Watch list.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

8. LOANS AND ADVANCES, NET (continued)

g) Economic sector risk concentration for the loans and advances:

31 December 2023	Performing loans and advances	Non- performing loans and advances	Loans and advances, gross	Allowance for expected credit losses	Loans and advances, net
Trading and Services	5,418,163	149,085	5,567,248	(195,161)	5,372,087
Financial Services	3,607,489	-	3,607,489	(5,815)	3,601,674
Energy, Oil and Petrochemical	3,510,708	2,835	3,513,543	(19,288)	3,494,255
Manufacturing	3,174,664	40,915	3,215,579	(41,516)	3,174,063
Real Estate	2,248,114	-	2,248,114	(4,425)	2,243,689
Construction and Engineering	1,641,539	70,579	1,712,118	(58,146)	1,653,972
Quasi Government	1,483,313	-	1,483,313	(351)	1,482,962
Transportation	1,314,283	301,240	1,615,523	(224,402)	1,391,121
Retail	1,156,880	26,472	1,183,352	(40,473)	1,142,879
Communication and Media	646,527	170	646,697	(1,941)	644,756
Agriculture and Fishing	597,031	-	597,031	(1,177)	595,854
Others	2,583,193	-	2,583,193	(80,544)	2,502,649
	27,381,904	591,296	27,973,200	(673,239)	27,299,961

31 December 2022	Performing loans and advances	Non- performing loans and advances	Loans and advances, gross	Allowance for expected credit losses	Loans and advances, net
Trading and Services	4,820,854	182,589	5,003,443	(246,467)	4,756,976
Financial Services	4,779,910	-	4,779,910	(6,468)	4,773,442
Manufacturing	2,861,704	40,303	2,902,007	(44,597)	2,857,410
Real Estate	2,521,064	-	2,521,064	(9,747)	2,511,317
Energy, Oil and Petrochemical	2,447,825	2,550	2,450,375	(6,758)	2,443,617
Construction and Engineering	1,788,036	96,569	1,884,605	(91,699)	1,792,906
Retail	1,329,765	8,210	1,337,975	(26,875)	1,311,100
Agriculture and Fishing	657,331	-	657,331	(1,783)	655,548
Transportation	588,951	301,279	890,230	(196,270)	693,960
Communication and Media	380,881	-	380,881	(1,295)	379,586
Others	2,623,518	-	2,623,518	(8,643)	2,614,875
	24,799,839	631,500	25,431,339	(640,602)	24,790,737

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

9. OTHER ASSETS

	2023	2022
Derivatives related receivables	164,234	130,336
Margin lending receivables	112,845	82,980
Prepayments	85,472	52,844
Due from related parties (note 38)	51,741	127,147
Fees and commission	11,531	13,305
Others	39,587	49,553
	<u>465,410</u>	<u>456,165</u>

10. FURNITURE, FIXTURES AND EQUIPMENT, NET

2023	Leasehold improvements	Furniture and equipment	Work in progress	Total
Cost:				
Balance at 1 January 2023	62,340	172,594	2,499	237,433
Additions	188	12,810	13,235	26,233
Transfers	270	3,201	(3,471)	-
Balance at 31 December 2023	<u>62,798</u>	<u>188,605</u>	<u>12,263</u>	<u>263,666</u>
Accumulated depreciation:				
Balance at 1 January 2023	44,856	141,036	-	185,892
Charge for the year	4,983	14,123	-	19,106
Balance at 31 December 2023	<u>49,839</u>	<u>155,159</u>	<u>-</u>	<u>204,998</u>
Carrying amount at 31 December 2023	<u>12,959</u>	<u>33,446</u>	<u>12,263</u>	<u>58,668</u>
2022	Leasehold improvements	Furniture and equipment	Work in progress	Total
Cost:				
Balance at 1 January 2022	82,962	164,714	2,495	250,171
Additions	592	2,623	9,855	13,070
Transfers	4,273	5,578	(9,851)	-
Write-offs	(25,487)	(321)	-	(25,808)
Balance at 31 December 2022	<u>62,340</u>	<u>172,594</u>	<u>2,499</u>	<u>237,433</u>
Accumulated depreciation:				
Balance at 1 January 2022	60,346	129,537	-	189,883
Charge for the year	9,997	11,820	-	21,817
Write-offs	(25,487)	(321)	-	(25,808)
Balance at 31 December 2022	<u>44,856</u>	<u>141,036</u>	<u>-</u>	<u>185,892</u>
Carrying amount at 31 December 2022	<u>17,484</u>	<u>31,558</u>	<u>2,499</u>	<u>51,541</u>

Above work in progress represents the projects in progress that relates to enhance the existing tangible assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

11. LEASES

(a) Right-of-use assets, net

	2023	2022
Balance at 1 January	184,629	197,931
Additions, net	73,237	11,451
Depreciation	(24,590)	(24,753)
Balance at 31 December	<u>233,276</u>	<u>184,629</u>

(b) Lease liabilities

	2023	2022
Balance at 1 January	193,740	201,445
Additions, net	73,237	11,451
Special commission expense	13,010	11,031
Payments of special commission expense	(13,010)	(11,031)
Payments of principal	(20,777)	(19,156)
Balance at 31 December	<u>246,200</u>	<u>193,740</u>

12. INTANGIBLE ASSETS, NET

2023	Software	Work in progress	Total
Cost:			
Balance at 1 January 2023	153,084	22,986	176,070
Additions	4,283	55,219	59,502
Transfers	37,483	(37,483)	-
Balance at 31 December 2023	<u>194,850</u>	<u>40,722</u>	<u>235,572</u>
Accumulated amortisation:			
Balance at 1 January 2023	126,783	-	126,783
Charge for the year	18,181	-	18,181
Balance at 31 December 2023	<u>144,964</u>	<u>-</u>	<u>144,964</u>
Carrying amount at 31 December 2023	<u>49,886</u>	<u>40,722</u>	<u>90,608</u>

2022	Software	Work in progress	Total
Cost			
Balance at 1 January 2022	137,626	13,223	150,849
Additions	627	24,594	25,221
Transfers	14,831	(14,831)	-
Balance at 31 December 2022	<u>153,084</u>	<u>22,986</u>	<u>176,070</u>
Accumulated amortisation:			
Balance at 1 January 2022	112,590	-	112,590
Charge for the year	14,193	-	14,193
Balance at 31 December 2022	<u>126,783</u>	<u>-</u>	<u>126,783</u>
Carrying amount at 31 December 2022	<u>26,301</u>	<u>22,986</u>	<u>49,287</u>

Above work in progress represents the projects in progress that relates to enhance existing intangible assets or to acquire new software's.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

13. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2023	2022
Money market deposits	3,730,823	4,119,310
Current accounts	125,388	68,732
	<u>3,856,211</u>	<u>4,188,042</u>

Money market deposits include profit free deposits of SAR 358 million (2022: SAR 532 million) from SAMA with original tenures ranging from 1 to 4.75 years in order to offset the modification losses that the Group is expected to incur in deferring the payments.

The above include Shariah based balances as follows:

	2023	2022
Money market deposits - Murabaha	-	213,071

14. CUSTOMERS' DEPOSITS

	2023	2022
Demand deposits	18,810,969	15,001,961
Time deposits	12,560,360	13,346,902
Margin	426,532	922,498
Saving accounts	307,758	323,649
	<u>32,105,619</u>	<u>29,595,010</u>

The above include foreign currency deposits as follows:

	2023	2022
Demand	2,451,483	3,840,423
Time	1,955,653	2,520,390
Margin	69	54
	<u>4,407,205</u>	<u>6,360,867</u>

The above include Shariah approved customer deposits as below:

	2023	2022
Demand deposits	3,835,243	3,725,814
Time deposits	9,129,618	9,641,128
Saving accounts	307,758	323,649
Margin deposits	8,406	3,107
	<u>13,281,025</u>	<u>13,693,698</u>

15. SUBORDINATED DEBT

During the year, the bank began issuing its Tier II sukuk (non-convertible and unlisted) worth SAR 3 billion. An amount of SAR 1.5 billion was issued and subscribed on December 19, 2023. The issuance of the Sukuk is under the Bank's Sukuk issuance programme ("the Programme") and matures in 2033, with the Bank having the option to redeem the Sukuk after 5 years, subject to SAMA's prior approval and the conditions of the Programme being met. The Bank's Sukuk programme is in line with the Bank's strategic objectives to promote growth and actively contribute to the achievement of the national economic goals set out in the Kingdom's Vision 2030. The structure of the Sukuk has been approved by the Bank's Shari'ah Committee and the Regulatory Authority. The Sukuk is unsecured and was offered through a private placement in the Kingdom of Saudi Arabia. The effective special commission rate is the three-month SAIBOR plus a margin of 120 basis points and is payable quarterly. The sukuk are denominated in Saudi Arabian riyals.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

16. OTHER LIABILITIES

	2023	2022
Accrued expenses	215,849	169,253
Derivatives related payables	171,299	90,263
Expected credit loss on loan commitments and financial guarantee contracts	162,204	141,337
Due to related parties (note 38)	141,647	145,020
Deferred loan, letter of credit and guarantee fees	118,640	74,598
End of service benefits (note 16.1)	84,550	79,561
Provision for zakat (note 31)	50,260	26,680
Sadad payable	46,064	61,563
Credit card related payables	44,698	2,126
Others	105,065	96,547
	<u>1,140,276</u>	<u>886,948</u>

i. End of service benefits

The Group 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 other liabilities in the consolidated statement of financial position and movement in the obligation during the year based on its present value are as follows:

	2023	2022
Balance at 1 January	79,561	62,723
Current service cost	12,636	10,806
Interest cost	3,745	1,486
Benefits paid during the year	(5,250)	(5,727)
Actuarial (gains) / losses	(6,142)	10,033
Amount transferred from related party	-	240
Balance at 31 December	<u>84,550</u>	<u>79,561</u>

(a) Charge for the year recognised in the consolidated statement of income

	2023	2022
Current service cost	12,636	10,806
Interest cost	3,745	1,486
	<u>16,381</u>	<u>12,292</u>

(b) Re-measurement recognised in the consolidated statement of other comprehensive income

	2023	2022
(Gain) / loss from change in experience assumptions	(6,315)	9,962
Loss from change in financial assumptions	7	1,809
Loss / (gain) from change in demographic assumptions	166	(1,738)
	<u>(6,142)</u>	<u>10,033</u>

(c) Principal actuarial assumptions (in respect of the employee end of service benefits)

	2023	2022
Discount rate	4.3%	4.6%
Expected rate of salary increase	4.20%	4.25%
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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

16. OTHER LIABILITIES (continued)

i. End of service benefits (continued)
(d) Sensitivity of actuarial assumptions

The table below illustrates the sensitivity of the defined benefit obligation valuation as at 31 December 2023 to the discount rate and salary escalation rate:

2023	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
Base scenario			
Discount rate	0.50%	(2,441)	2,568
Expected rate of salary increase	0.50%	1,990	(1,916)
2022			
	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
Base scenario			
Discount rate	0.50%	(2,307)	2,439
Expected rate of salary increase	0.50%	1,895	(1,812)

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:

	2023	2022
Within the next 12 months (next annual reporting period)	11,176	10,263
Between 2 and 5 years	54,372	52,583
Beyond 5 years up to 10 years	74,167	69,141
Total expected payments	<u>139,715</u>	<u>131,987</u>

The average duration of the defined benefits plan obligation at 31 December 2023 is 5.7 years (31 December 2022: 5.9 years).

17. SHARE CAPITAL

The authorised, issued and fully paid share capital at 31 December 2023 and 2022 comprised 750 million shares of SAR 10 each. Basic and diluted earnings per share for the year ended 31 December 2023 and 2022 is calculated on a weighted average basis by dividing the net income for the year by 750 million shares. Gulf International Bank BSC is the parent, Public Investment Fund is the Ultimate parent and Government of Saudi Arabia is the Ultimate Controlling Party of the Group.

	2023	2022
Gulf International Bank BSC	50%	50%
Public Investment Fund	50%	50%

18. STATUTORY RESERVE

In accordance with Saudi Arabian Banking Control Law and the By-Laws of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid-up capital of the Bank. Due to brought forward accumulated losses, no amount has been transferred during the year to the statutory reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

19. CONTINGENCIES AND COMMITMENTS

a) Legal proceedings

As at 31 December 2023 and 2022, there were no significant legal proceedings outstanding against the Group which requires a disclosure or provision.

b) Capital commitments

As at 31 December 2023 the Group had capital commitments of SAR 86.2 million (2022: SAR 65.2 million) in respect of furniture, fixtures and equipment and intangible assets.

c) Credit related contingencies and commitments

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 Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The letter of guarantees once called upon are payable on demand by the Group, subject to meeting certain conditions stipulated in underlying agreements, where applicable.

Documentary letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are generally collateralised by the underlying shipments of goods to which they relate, and therefore have significantly less risk. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be presented before being reimbursed by the customers.

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

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

2023	Notional amounts by term to maturity				
	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Letters of credit	1,853,819	622,150	3,398	-	2,479,367
Letters of guarantee	2,385,858	7,055,781	3,625,312	101,124	13,168,075
Acceptances	658,512	846,586	48,884	-	1,553,982
Irrevocable commitments to extend credit	-	37,500	3,153,215	2,811,051	6,001,766
	<u>4,898,189</u>	<u>8,562,017</u>	<u>6,830,809</u>	<u>2,912,175</u>	<u>23,203,190</u>
2022	Notional amounts by term to maturity				
	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Letters of credit	1,264,106	630,624	112,259	-	2,006,989
Letters of guarantee	2,103,658	6,474,486	2,570,318	2,485	11,150,947
Acceptances	533,073	856,278	63,340	-	1,452,691
Irrevocable commitments to extend credit	-	163,900	1,055,014	1,477,035	2,695,949
	<u>3,900,837</u>	<u>8,125,288</u>	<u>3,800,931</u>	<u>1,479,520</u>	<u>17,306,576</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

19. CONTINGENCIES AND COMMITMENTS (continued)

The outstanding unused portion of commitments as at 31 December 2023 which can be revoked unilaterally at any time by the Group, amounts to SAR 16.5 billion (2022: SAR 4.9 billion).

In addition to above credit related irrevocable commitments, the Group has an irrevocable commitment of SAR 39 million as of 31 December 2023.

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

	2023	2022
Corporate	20,665,862	15,121,290
Banks and other financial institutions	2,537,328	2,185,286
	<u>23,203,190</u>	<u>17,306,576</u>

iii) Reconciliation of exposure of the financial contingencies and commitments:

31 December 2023	Stage 1 (12- month ECL)	Stage 2 (lifetime ECL but not credit- impaired)	Stage 3 (lifetime ECL credit- impaired)	Total
Balance at 1 January 2023	15,507,553	1,444,009	355,014	17,306,576
<i>Transfers during the year</i>				
Transfer to Stage 1	282,027	(282,027)	-	-
Transfer to Stage 2	(86,556)	86,556	-	-
Transfer to Stage 3	-	-	-	-
	195,471	(195,471)	-	-
Net change during the year	5,866,436	71,270	(41,092)	5,896,614
Balance at 31 December 2023	<u>21,569,460</u>	<u>1,319,808</u>	<u>313,922</u>	<u>23,203,190</u>

31 December 2022	Stage 1 (12- month ECL)	Stage 2 (lifetime ECL but not credit- impaired)	Stage 3 (lifetime ECL credit- impaired)	Total
Balance at 1 January 2022	14,164,314	1,353,003	409,627	15,926,944
<i>Transfers during the year</i>				
Transfer to Stage 1	117,960	(117,960)	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
	117,960	(117,960)	-	-
Net change during the year	1,225,279	208,966	(54,613)	1,379,632
Balance at 31 December 2022	<u>15,507,553</u>	<u>1,444,009</u>	<u>355,014</u>	<u>17,306,576</u>

iv) Reconciliation of expected credit losses on financial contingencies and commitments:

31 December 2023	Stage 1 (12- month ECL)	Stage 2 (lifetime ECL but not credit- impaired)	Stage 3 (lifetime ECL credit- impaired)	Total
Balance at 1 January 2023	12,056	12,286	116,995	141,337
<i>Transfers during the year</i>				
Transfer to Stage 1	1,984	(1,984)	-	-
Transfer to Stage 2	(370)	370	-	-
Transfer to Stage 3	-	-	-	-
	1,614	(1,614)	-	-
Charge during the year	893	3,358	16,616	20,867
Balance at 31 December 2023	<u>14,563</u>	<u>14,030</u>	<u>133,611</u>	<u>162,204</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

19. CONTINGENCIES AND COMMITMENTS (continued)

iv) Reconciliation of expected credit losses on financial contingencies and commitments: (continued)

31 December 2022	Stage 1 (12- month ECL)	Stage 2 (lifetime ECL but not credit- impaired)	Stage 3 (lifetime ECL credit- impaired)	Total
Balance at 1 January 2022	8,723	6,060	123,412	138,195
<i>Transfers during the year</i>				
Transfer to Stage 1	503	(503)	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
	503	(503)	-	-
Charge / (reversal) during the year	2,830	6,729	(6,417)	3,142
Balance at 31 December 2022	12,056	12,286	116,995	141,337

20. SPECIAL COMMISSION INCOME AND EXPENSE

	2023	2022
Special commission income		
Loans and advances	1,829,479	903,770
Due from banks and other financial institutions	455,378	161,672
Investments held at amortised cost	354,116	148,340
	<u>2,638,973</u>	<u>1,213,782</u>
Special commission expense		
Customers' deposits	1,694,045	554,865
Due to banks and other financial institutions	17,516	8,653
Lease liabilities (note 11.b)	13,010	11,031
Subordinated debt	4,072	-
	<u>1,728,643</u>	<u>574,549</u>
Net special commission income	<u>910,330</u>	<u>639,233</u>

The breakup of income from Shariah products is as follows:

	2023	2022
Investments held at amortised cost	179,601	105,041
Due from banks and other financial institutions	34,031	10,013
Loans and advances	1,076,517	547,707
	<u>1,290,149</u>	<u>662,761</u>

The breakup of expense from Shariah products is as follows:

	2023	2022
Due to banks and other financial institutions	4,891	3,577
Customers' deposits	573,360	169,823
Subordinated debt	4,072	-
	<u>582,323</u>	<u>173,400</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

21. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income	2023	2022
Letters of credit	53,953	43,731
Loan management fee	69,145	52,173
Asset management	65,096	63,052
Letters of guarantee	42,690	34,254
Advisory	41,132	42,819
Other banking services	28,672	15,270
Brokerage	5,978	6,049
	<u>306,666</u>	<u>257,348</u>
Fee and commission expense		
Bank charges and commission	(10,245)	(7,547)
Other fees and commission expenses	(8,887)	(9,475)
	<u>(19,132)</u>	<u>(17,022)</u>
Net fee and commission income	<u>287,534</u>	<u>240,326</u>
Point in time:	2023	2022
Other banking services	28,672	15,270
Advisory	41,132	42,819
Brokerage	5,978	6,049
Over time:		
Trade finance	96,643	77,985
Fees on credit facilities	69,145	52,173
Asset management fee	65,096	63,052
	<u>306,666</u>	<u>257,348</u>

22. EXCHANGE INCOME, NET

Foreign exchange income principally comprises customer-initiated foreign exchange contracts which have been offset in the market with matching contracts. There is no remaining market risk associated with these offset customer-related foreign exchange contracts. Foreign exchange includes spot and forward foreign exchange contracts, and currency futures and options.

23. GAIN / (LOSS) ON INVESTMENTS HELD AT FVSI, NET

Gains on investments held at FVSI comprised of the mark to market of the Group's investments in the funds and other trading equity securities.

24. GAIN ON OTHER FINANCIAL INSTRUMENTS, NET

	2023	2022
Derivatives	11,284	22,754
Gain on sale of debt securities	127	4,034
	<u>11,411</u>	<u>26,788</u>

Gains on other financial instruments comprises gains and losses arising both on the purchase and sale, and from changes in the fair value, of instruments, together with the related interest income, interest expense. Interest rate derivatives income principally comprises customer-initiated contracts which have been offset in the market with matching contracts. There is no remaining market risk associated with these contracts.

25. DIVIDEND INCOME

Dividend income comprises of dividend income on equity investments classified as FVOCI.

26. OTHER INCOME

Other income mainly consists of recoveries on previously written-off assets that had previously been either written off or transferred to the memorandum records.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

27. SALARIES AND EMPLOYEES' RELATED EXPENSES

The following table summarizes the Group's employee categories defined in accordance with SAMA's rules on compensation practices and includes the total amounts of fixed and variable compensation paid to employees during the year ended 31 December 2023 and the forms of such payments.

Category	2023			Total
	Number of employees	Fixed compensation	Variable compensation	
Senior executives requiring SAMA no objection	18	21,349	6,819	28,168
Employees engaged in risk taking activities	172	73,590	13,744	87,334
Employees engaged in control functions	122	35,539	5,272	40,811
Other employees	585	159,950	60,844	220,794
	897	290,428	86,679	377,107
Outsourced employees	236	59,507	95	59,602
	1,133	349,935	86,774	436,709
Other employee related benefits				75,253
Total salaries and employees' related expenses				511,962

Category	2022			Total
	Number of employees	Fixed compensation	Variable compensation	
Senior executives requiring SAMA no objection	17	21,901	4,393	26,294
Employees engaged in risk taking activities	170	65,904	11,269	77,173
Employees engaged in control functions	120	32,886	3,547	36,433
Other employees	539	139,295	31,512	170,807
	846	259,986	50,721	310,707
Outsourced employees	226	41,159	-	41,159
	1,072	301,145	50,721	351,866
Other employee related benefits				75,032
Total salaries and employees' related expenses				426,898

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

28. RENT AND PREMISES RELATED EXPENSES

	2023	2022
Office cleaning and other premises expenses	2,518	2,256
Repair and maintenance	5,124	4,097
Utilities and others	4,966	1,896
	12,608	8,249

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

29. DEPRECIATION AND AMORTISATION

	2023	2022
Depreciation on furniture, fixtures and equipment (note 10)	19,106	21,817
Depreciation on right-of-use assets (note 11)	24,590	24,753
Amortisation on intangible assets (note 12)	18,181	14,193
	<u>61,877</u>	<u>60,763</u>

30. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	2023	2022
Repair and maintenance	74,150	56,920
Communication and data information services	54,457	17,588
Valued added tax	49,920	42,334
Managed services / Contractor charges	43,737	35,052
Advertising and business promotion	19,913	13,501
Depositors' protection scheme expenses	12,000	10,800
Legal and professional fees	7,221	19,831
Auditors' fee (30.1)	2,923	2,267
Subscription and publication	8,049	15,737
Directors' remuneration and other expenses	7,088	6,556
Visa card expenses	5,176	3,873
Insurance	3,533	3,219
Corporate social responsibility	3,234	1,472
Others	13,251	24,443
	<u>304,652</u>	<u>253,593</u>

30.1 AUDITORS' FEE

Above Auditors' fee consists of the following:

	2023	2022
Audit and review	2,253	2,010
Other services	670	257
	<u>2,923</u>	<u>2,267</u>

31. ZAKAT

	2023	2022
Current year charge	47,136	23,554
Prior year reversal	-	(1,500)
	<u>47,136</u>	<u>22,054</u>

Status of assessments

Gulf International Bank - Saudi Arabia

The Bank has filed its zakat declaration with the Zakat, Tax and Customs Authority ("ZATCA") for the period from 3rd April 2019 to 31 December 2019 and for the years ended 31 December 2020 to 2022. The assessments have been finalised by ZATCA for the period / year 2019 and 2020, without any additional liability, however, no assessment has been raised by the ZATCA for the year 31 December 2021 and 2022.

GIB Capital Company

In 2016, the Company obtained an approval from ZATCA for an exemption to pay zakat. Accordingly, the Company has not considered zakat for the years from 2016 to 2023.

32. CASH AND CASH EQUIVALENTS

	2023	2022
Cash and balances with		
Saudi Central Bank (SAMA) excluding statutory deposit	4,892,374	3,606,274
Due from banks and other financial institutions		
with original maturities of three months or less	2,335,409	4,503,902
	<u>7,227,783</u>	<u>8,110,176</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

33. FINANCIAL RISK MANAGEMENT

(a) Credit risk

The Board of Directors ("the Board") 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 Group. 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 Group 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 Group assesses the probability of default of counterparties using internal rating tools. Also, the Group uses the external ratings, of the major rating agencies where available.

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

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 Group's performance to developments affecting a particular industry or geographical location.

The Group seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business. It also takes security when appropriate. The group also seeks additional collateral from a 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 Group 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 8. Information on credit risk relating to derivative instruments is provided in note 7 and for contingencies and commitments in note 19.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

33. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

33.1 Concentration of risks of assets with credit risk exposure and liabilities
Geographical concentration

2023	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Total
Assets						
Balance with Saudi Central Bank (SAMA)	6,667,497	-	-	-	-	6,667,497
Due from banks and other financial institutions	405,157	1,406,750	496,961	56,541	-	2,365,409
Investments, net	8,990,768	114,771	-	-	-	9,105,539
Positive fair value of derivatives	205,648	110,766	-	-	-	316,414
Loans and advances, net	27,299,961	-	-	-	-	27,299,961
Other assets	796,221	32,859	18,882	-	-	847,962
Total	44,365,252	1,665,146	515,843	56,541	-	46,602,782
Liabilities						
Due to banks and other financial institutions	3,730,409	123,153	2,613	36	-	3,856,211
Customers' deposits	30,513,389	75,442	1,516,788	-	-	32,105,619
Negative fair value of derivatives	119,903	130,710	-	-	-	250,613
Subordinated debt	1,504,072	-	-	-	-	1,504,072
Other liabilities	998,629	141,647	-	-	-	1,140,276
Lease liabilities	246,200	-	-	-	-	246,200
Total liabilities	37,112,602	470,952	1,519,401	36	-	39,102,991
Contingencies and commitments						
Letters of credit	2,349,740	129,627	-	-	-	2,479,367
Letters of guarantee	11,209,736	336,449	274,861	1,345,553	1,476	13,168,075
Acceptances	1,542,910	7,213	3,859	-	-	1,553,982
Irrevocable commitments to extend credit	5,955,273	46,493	-	-	-	6,001,766
Maximum credit exposure (stated at credit equivalent amounts)						
Contingencies and commitments						
Letters of credit	2,428,310	34,566	-	-	-	2,462,876
Letters of guarantee	10,426,508	263,105	73,368	426,053	393	11,189,427
Acceptances	2,439,251	1,923	1,029	-	-	2,442,203
Irrevocable commitments to extend credit	5,208,854	46,492	-	-	-	5,255,346

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

33. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit Risk (continued)

33.1 Concentration of risks of assets with credit risk exposure and liabilities
Geographical concentration (continued)

2022	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Total
<u>Assets</u>						
Balance with Saudi Central Bank (SAMA)	5,150,826	-	-	-	-	5,150,826
Due from banks and other financial institutions	1,242,680	1,089,333	1,125,670	1,076,319	-	4,534,002
Investments, net	6,704,072	88,330	-	-	-	6,792,402
Positive fair value of derivatives	233,460	184,020	-	-	-	417,480
Loans and advances, net	24,790,737	-	-	-	-	24,790,737
Other assets	568,513	173,072	37	-	-	741,622
Total	38,690,288	1,534,755	1,125,707	1,076,319	-	42,427,069
<u>Liabilities</u>						
Due to banks and other financial institutions	3,238,826	946,567	2,613	36	-	4,188,042
Customers' deposits	28,587,531	-	1,007,479	-	-	29,595,010
Negative fair value of derivatives	149,525	182,034	-	-	-	331,559
Lease liabilities	193,740	-	-	-	-	193,740
Other liabilities	763,339	84,467	39,142	-	-	886,948
Total liabilities	32,932,961	1,213,068	1,049,234	36	-	35,195,299
<u>Contingencies and commitments</u>						
Letters of credit	1,949,621	57,368	-	-	-	2,006,989
Letters of guarantee	9,409,012	265,349	259,445	1,215,675	1,466	11,150,947
Acceptances	1,452,691	-	-	-	-	1,452,691
Irrevocable commitments to extend credit	2,695,949	-	-	-	-	2,695,949
<u>Maximum Credit exposure (stated at credit equivalent amounts)</u>						
<u>Contingencies and commitments</u>						
Letters of credit	854,683	15,271	-	-	-	869,954
Letters of guarantee	8,544,948	164,156	69,411	416,791	391	9,195,697
Acceptances	538,379	-	-	-	-	538,379
Irrevocable commitments to extend credit	2,575,680	-	-	-	-	2,575,680

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

33. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

33.2 Credit quality analysis

The tables shown in investments and loans and advances notes set out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in those tables represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the respective tables represents the amounts committed or guaranteed, respectively.

During the year ended 31 December 2023, the Group has implemented a revised expected credit loss model which incorporates revised basis of portfolio segmentation, PIT conversion methodology and macroeconomic variables.

Amounts arising from ECL - significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and 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 Group's quantitative modelling, the remaining lifetime PD is determined to have increased significantly. The Group also considers all counterparties internally rated 2 and above, between 2- and 3+, between 3 and 4+, between 4 and 5-, between 6+ and 6 and 6- to be significantly deteriorated where they have been downgraded 6 notches, 5 notches, 4 notches, 3 notches, 2 notches and 1 notch 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 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 Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- The criteria is capable of identifying significant increases in credit risk before an exposure is in default;
- The criteria does 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 Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower. 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; and grade 1 to 7 are performing and grade 8 to 10 are non-performing.

Category:	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 CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

33. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

33.2 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

- 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; and
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.

Retail exposures

- Internally collected data and customer behavior - e.g. utilisation of credit card facilities;
- Affordability metrics; and
- External data from credit reference agencies including industry-standard credit scores.

All exposures

- Payment record - this includes overdue status as well as a range of variables about payment;
- Utilisation of the granted limit;
- Requests for and granting of forbearance; and
- 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 Group 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 Group 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 Group considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as liquidating collateral; or the borrower is past due more than 90 days on any credit obligation to the Group. In assessing whether a borrower is in default, the Group 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 Group.

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 Group for regulatory capital purposes.

Incorporation of forward-looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Group takes into consideration the economic forecasts published by the IMF and formulates a fundamental view of the future direction of relevant economic variables as well as a reasonable range of possible scenarios and its weights.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2023

(AMOUNTS IN SAR'000)

33. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

33.2 Credit quality analysis (continued)

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

The Group 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 31 December 2023 included the following ranges of key indicators:

KSA**Base 50%**

	Year 1	Year 2	Year 3
Annual Growth in KSA Government Revenue (%)	4.2	4.7	(2.4)
KSA GDP (%)	3.2	7.6	3.7
Oil Price (\$)	94.0	90.0	81.0
World GDP (%)	4.4	2.4	3.1
World Investment as % of GDP	3.1	2.4	(0.8)

Positive 5%

Annual Growth in KSA Government Revenue (%)	17.6	18.1	11.0
KSA GDP (%)	5.1	9.5	5.6
Oil Price (\$)	104.0	100.0	91.0
World GDP (%)	6.1	4.1	4.8
World Investment as % of GDP	4.0	3.2	0.1

Negative 45%

Annual Growth in KSA Government Revenue (%)	(11.4)	(10.9)	(18.0)
KSA GDP (%)	1.0	5.4	1.5
Oil Price (\$)	82.0	78.0	69.0
World GDP (%)	2.4	0.4	1.1
World Investment as % of GDP	2.1	1.3	(1.8)

The Group has identified KSA GDP growth rate, Oil Price and KSA Government Revenue as the key economic variables for the Wholesale Corporate loans portfolio along with World GDP and World Investments for the Investment, Securities and Placements portfolio. Given the nature of the Bank's exposures and availability of historical information, the Group derives the point-in-time (PIT) PD using the through-the-cycle (TTC) PD for each rating category. The Group uses the Regression based model for the Wholesale Corporate Loans portfolio and Vasicek models for the Investments securities and placements portfolio to link the TTC PDs with forward looking economic factors to derive PIT PD estimates for each rating category. The Regression as well as the Vasicek models takes into consideration forward looking economic forecasts under three scenarios (base case, negative case, and positive case), historical economic data and TTC PDs for deriving PIT PDs. The relationship between the economic factors and default rates have been developed using historical default data and relevant macroeconomic data

The table below shows the sensitivity of change in economic indicators to the ECL in SAR 000' computed under three different scenarios used by the Group:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

33. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

33.2 Credit quality analysis (continued)

Measurement of ECL

		Debt instruments held at amortised cost	Loans and advances	Financial guarantees	Letters of credit	Undrawn commitments
2023	Probability					
Base	50%	3,826	152,055	15,097	3,766	1,132
Positive	5%	3,239	135,437	11,032	2,536	841
Negative	45%	6,442	182,396	22,401	6,026	1,770
		Debt instruments held at amortised cost	Loans and advances	Financial guarantees	Letters of credit	Undrawn commitments
2022	Probability					
Base	50%	1,109	158,856	12,297	6,846	1,232
Positive	15%	923	141,807	10,367	5,580	932
Negative	35%	1,512	178,773	14,586	8,392	1,646

The key input parameters into the measurement of ECL are the PD, loss given default (LGD) and exposure at default (EAD). These parameters are derived from internally developed statistical models, other historical data or benchmarks 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 Group's central default tendency for the corporate portfolio. For Banks/FIs exposures, the Group applies a separate set of TTC PDs that are developed are based on external rating data of global financial institutions. Furthermore, for Sovereign exposures, the Group applies a separate set of TTC PDs that are based on external rating data of Sovereigns rated by S&P.

The TTC PD estimates are converted to PIT PDs using the Regression model for the Loans portfolio and Vasicek model for the Investments securities and placements portfolio. 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. Since the Group has insufficient historical LGD data to derive statistically reliable LGD estimates, internal LGDs shall be based on external benchmarks.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amounts allowed under the contract including amortisation. The EAD for on-balance sheet exposures shall be equivalent to the outstanding utilisation. Cash, equities and real estate are considered as eligible collateral for ECL calculation. For off-balance sheet exposures, the EAD shall be calculated by multiplying the gross exposure amount by a Credit-Conversion Factor (CCF).

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

The Group 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

33. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

33.2 Credit quality analysis (continued)

Credit-impaired loans

Credit-impaired loans and advances are graded 8 to 10 in the Group's 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 Group renegotiates loans to customers in financial difficulties to maximise collection opportunities and minimise the risk of default. The Group 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.

Collateral

The Group 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 realizable 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 (after applicable hair cut) that are credit impaired as at 31 December are as follows:

	<u>2023</u>	<u>2022</u>
Less than 50%	65,639	107,894
51-70%	-	-
More than 70%	153,385	158,426
	<u>219,024</u>	<u>266,320</u>

34. 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 Group 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 the trading-book, the Group 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 Group 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2023

(AMOUNTS IN SAR'000)

34. MARKET RISK (continued)

(a) Market risk - (trading-book) (continued)

The VaR that the Group measures is an estimate, using a confidence level of 99% of the potential loss that is not expected to be exceeded if the current market positions were to be held unchanged for 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 Group 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 Group Asset Liability Committee (ALCO) for their review. The Group's VaR related information for the years ended 31 December 2023 and 2022 are as below, respectively.

SAR million:	Foreign exchange rate risk	Special commission rate risk	Equity price risk	Overall risk
VaR as at 31 December 2023	0.19	0.03	9.08	8.94
Average VaR for 2023	0.74	23.35	18.50	37.62
VaR as at 31 December 2022	0.36	0.75	22.22	23.33
Average VaR for 2022	0.30	0.37	23.22	23.89

(b) Market risk - (non-trading or banking book)

Market risk on non-trading or banking positions mainly arises from the special 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 special commission rates will affect either the fair values or the future cash flows of the financial instruments. The Board has established special commission rate gap limits for stipulated periods. The Group 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 special commission rates, with other variables held constant, on the Group's consolidated statement of income or equity. The sensitivity of the income is the effect of the assumed changes in special commission rates on the net special commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at 31 December 2023 and 2022, 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 net special commission income for +100/-100 bps increase in the net special commission is SAR +/- SA 21 million for 2023 (SAR +/- 38.3 million for 2022).

Special commission sensitivity of assets, liabilities and off-balance sheet items

The Group manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market special commission rates on its financial position and cash flows. The Board sets limits on the level of mismatch of special commission rate reprising that may be undertaken, which is monitored daily by Group Treasury.

The table below summarises the Group's exposure to special commission rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates. The Group is exposed to special commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

34. MARKET RISK (continued)

(b) Market risk - (non-trading or banking book) (continued)

i) Special commission rate risk (continued)

2023	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Non-commission bearing	Total
Assets						
Cash and balances with Saudi Central Bank (SAMA)	4,873,000	-	-	-	1,794,497	6,667,497
Due from banks and other financial institutions	2,178,676	-	-	-	186,733	2,365,409
Investments, net	1,495,659	2,814,640	1,224,989	3,250,548	319,703	9,105,539
Positive fair value of derivatives	-	-	-	-	316,414	316,414
<i>Loans and advances, net</i>						
Consumer loans	94,298	260,306	608,362	193,914	(13,998)	1,142,882
Commercial loans	19,300,764	6,129,141	795,119	-	(67,945)	26,157,079
Other assets	-	-	-	-	847,962	847,962
Total assets	27,942,397	9,204,087	2,628,470	3,444,462	3,383,366	46,602,782
Liabilities and equity						
Due to banks and other financial institutions	3,730,823	-	-	-	125,388	3,856,211
Customers' deposits	24,475,697	2,327,738	61,999	-	5,240,185	32,105,619
Negative fair value of derivatives	-	-	-	-	250,613	250,613
Subordinated debt	1,504,072	-	-	-	-	1,504,072
Lease liabilities	-	-	-	-	246,200	246,200
Other liabilities	-	-	-	-	1,140,276	1,140,276
Shareholders' equity	-	-	-	-	7,499,791	7,499,791
Total liabilities and equity	29,710,592	2,327,738	61,999	-	14,502,453	46,602,782
Commission rate sensitivity - on consolidated statement of financial position	(1,768,195)	6,876,349	2,566,471	3,444,462	(11,119,087)	-
Commission rate sensitivity - Off consolidated statement of financial position	17,125,772	(17,125,772)	-	-	-	-
Commission rate sensitivity - Off consolidated statement of financial position	(17,125,772)	17,125,772	-	-	-	-
Total commission rate sensitivity gap	(1,768,195)	6,876,349	2,566,471	3,444,462	(11,119,087)	-
Cumulative commission rate sensitivity gap	(1,768,195)	5,108,154	7,674,625	11,119,087	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

34. MARKET RISK (continued)

(b) Market risk - (non-trading or banking book) (continued)

i) Special commission rate risk (continued)

2022	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Non-commission bearing	Total
Assets						
Cash and balances with Saudi Central Bank (SAMA)	3,587,000	-	-	-	1,563,826	5,150,826
Due from banks and other financial institutions	3,111,431	-	-	-	1,422,571	4,534,002
Investments, net	1,069,362	1,341,063	1,029,275	2,853,287	499,415	6,792,402
Positive fair value of derivatives	-	-	-	-	417,480	417,480
<i>Loans and advances, net</i>						
Consumer loans	52,011	225,389	828,785	204,915	-	1,311,100
Commercial loans	18,230,193	5,089,622	150,259	-	9,563	23,479,637
Other assets	-	-	-	-	741,622	741,622
Total assets	26,049,997	6,656,074	2,008,319	3,058,202	4,654,477	42,427,069
Liabilities and equity						
Due to banks and other financial institutions	3,599,565	-	-	-	588,477	4,188,042
Customers' deposits	19,391,077	4,812,049	-	-	5,391,884	29,595,010
Negative fair value of derivatives	-	-	-	-	331,559	331,559
Lease liabilities	-	-	-	-	193,740	193,740
Other liabilities	-	-	-	-	886,948	886,948
Shareholders' equity	-	-	-	-	7,231,770	7,231,770
Total liabilities and equity	22,990,642	4,812,049	-	-	14,624,378	42,427,069
Commission rate sensitivity - On statement of financial position	3,059,355	1,844,025	2,008,319	3,058,202	(9,969,901)	-
Commission rate sensitivity - Off statement of financial position	14,587,960	1,820,250	-	-	-	-
Commission rate sensitivity - Off statement of financial position	(14,587,960)	(1,820,250)	-	-	-	-
Total commission rate sensitivity gap	3,059,355	1,844,025	2,008,319	3,058,202	(9,969,901)	-
Cumulative commission rate sensitivity gap	3,059,355	4,903,380	6,911,699	9,969,901	-	-

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

34. MARKET RISK (continued)

i) Special commission rate risk (continued)

The off-balance sheet gap represents the net notional amounts of derivative financial instruments, which are used to manage the commission rate risk. The effective special 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 position

The Group 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 year, the Group had the following significant net exposures denominated in foreign currencies:

	<u>2023</u>	<u>2022</u>
US Dollar - Short	67,944	47,482
Pound Sterling - long	265	879
Others - long	1,732	4,084
	<u>69,941</u>	<u>52,445</u>

iii) Currency risk

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

The table below shows the currencies to which the Group has a significant exposure as at 31 December 2023 and 2022, 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 consolidated 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 consolidated statement of income; whereas a negative effect shows a potential net reduction in the consolidated statement of income.

<u>Changes in currency rate by 5 bps</u>	<u>2023 - effect on net income</u>	<u>2022 - effect on net income</u>
USD	12,740 / (12,740)	2,374 / (2,374)
Pound Sterling	64 / (65)	5 / (5)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

35. LIQUIDITY RISK

ALCO is also responsible for managing depositor concentration risk, which is partially mitigated by virtue of having a significant portion of the Group's total assets as liquid assets (i.e. mature within 3 months). As at 31 December 2023, 17% percent (2022: 20%) of the Group's total assets consisted of cash, placements and securities and hence to this extent the risk of deposit withdrawals can be funded by reducing the level of surplus liquidity. Moreover, depositor concentration risk is further partially mitigated by having a laddered maturity of deposits and maintaining a high level of short-term liquidity. As at 31 December 2023, 24% (2022: 29%) of customer deposits are placed with SAMA on an overnight basis, bank placements, short-term T-bills / securities and in cash form.

Furthermore, Public Investment Fund is the ultimate parent of the Group. Due to the long-standing and close relationship, it has sizable deposits with the Group. Therefore, it is considered as one of the core depositors for the Group with a high degree of stickiness.

The Group maintains liquid reserves of no less than 20% of its deposit liabilities, in the form of cash, SAMA T-bills, due from banks and other financial institutions and/or assets, which can be converted into cash within a period not exceeding 30 days.

a) Analysis of discounted assets and liabilities by expected maturity

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

	2023						Total
	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	No fixed maturity	On Demand	
Assets							
<i>Cash and balances with SAMA</i>							
Cash in hand	-	-	-	-	-	15,693	15,693
Balances with SAMA	4,873,000	-	-	-	1,775,123	3,681	6,651,804
<i>Due from Banks and other financial institutions</i>							
current accounts	-	-	-	-	-	186,733	186,733
money market placements	2,148,676	30,000	-	-	-	-	2,178,676
<i>Investments, net</i>	554,598	2,739,664	1,734,503	3,757,071	319,703	-	9,105,539
<i>Positive fair value of derivatives</i>							
Held for trading	39,627	16,363	200,715	-	-	-	256,705
Held as fair value hedges	-	464	28,279	30,966	-	-	59,709
<i>Loans and advances, net</i>							
Overdraft	1,525,063	-	-	-	-	-	1,525,063
Credit cards	91,024	-	-	-	-	-	91,024
Consumer loans	34,463	8,708	782,756	225,931	-	-	1,051,858
Commercial loans	2,215,185	2,161,574	19,470,907	784,350	-	-	24,632,016
<i>Other assets</i>	-	-	-	-	847,962	-	847,962
	11,481,636	4,956,773	22,217,160	4,798,318	2,942,788	206,107	46,602,782
Liabilities and equity							
<i>Due to Banks and other financial institutions</i>							
current accounts	-	-	-	-	-	125,388	125,388
money market deposits	3,392,275	276,548	62,000	-	-	-	3,730,823
<i>Customers' deposits</i>							
Demand	-	-	-	-	-	18,810,969	18,810,969
Time	8,355,490	2,646,987	1,557,883	-	-	-	12,560,360
Saving	-	-	-	-	-	307,758	307,758
Margin	-	-	-	-	-	426,532	426,532
<i>Negative fair value of derivatives</i>							
Held for trading	38,475	16,244	194,254	-	-	-	248,973
Held as fair value hedges	-	-	396	1,244	-	-	1,640
Subordinated debt	-	4,072	1,500,000	-	-	-	1,504,072
<i>Lease liabilities</i>	8,344	25,031	100,122	112,703	-	-	246,200
<i>Other liabilities</i>	-	-	-	-	-	1,140,276	1,140,276
<i>Total equity</i>	-	-	-	-	7,499,791	-	7,499,791
	11,794,584	2,968,882	3,414,655	113,947	7,499,791	20,810,923	46,602,782

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

35. LIQUIDITY RISK (continued)

a) Analysis of discounted assets and liabilities by expected maturity (continued)

	2022						Total
	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	No fixed maturity	On Demand	
Assets							
<i>Cash and balances with SAMA</i>							
Cash in hand	-	-	-	-	-	15,784	15,784
Balances with SAMA	3,587,000	-	-	-	1,544,552	3,490	5,135,042
<i>Due from Banks and other financial institutions</i>							
current accounts	-	-	-	-	-	1,422,571	1,422,571
money market placements	3,081,331	-	30,100	-	-	-	3,111,431
<i>Investments, net</i>	446,405	1,208,567	1,873,503	2,764,512	499,415	-	6,792,402
<i>Positive fair value of derivatives</i>							
Held for trading	18,157	13,718	202,117	100,244	-	-	334,236
Held as fair value hedges	-	-	44,034	39,210	-	-	83,244
<i>Loans and advances, net</i>							
Overdraft	1,836,860	-	-	-	-	-	1,836,860
Credit cards	25,091	-	-	-	-	-	25,091
Consumer loans	8,527	10,253	1,006,005	261,224	-	-	1,286,009
Commercial loans	1,727,099	1,421,135	17,084,133	1,410,410	-	-	21,642,777
<i>Other assets</i>	-	-	-	-	741,622	-	741,622
	10,730,470	2,653,673	20,239,892	4,575,600	2,785,589	1,441,845	42,427,069
Liabilities and equity							
<i>Due to Banks and other financial institutions</i>							
current accounts	-	-	-	-	-	68,732	68,732
money market deposits	3,180,692	550,000	388,618	-	-	-	4,119,310
<i>Customers' deposits</i>							
Demand	-	-	-	-	-	15,001,961	15,001,961
Time	7,759,501	4,687,270	900,131	-	-	-	13,346,902
Saving	-	-	-	-	-	323,649	323,649
Margin	-	-	-	-	-	922,498	922,498
<i>Negative fair value of derivatives</i>							
Held for trading	124	30,740	187,114	111,055	-	-	329,033
Held as fair value hedges	-	-	475	2,051	-	-	2,526
<i>Lease liabilities</i>	4,737	11,430	44,076	133,497	-	-	193,740
<i>Other liabilities</i>	-	-	-	-	886,948	-	886,948
<i>Total equity</i>	-	-	-	-	7,231,770	-	7,231,770
	10,945,054	5,279,440	1,520,414	246,603	8,118,718	16,316,840	42,427,069

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

35. LIQUIDITY RISK (continued)

b) Analysis of financial liabilities by remaining undiscounted contractual maturities

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2023 and 2022 based on contractual undiscounted repayment obligations. As special commission payments up to contractual maturity are included in the table, totals do not necessarily match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities. The Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not affect the expected cash flows indicated by the Group's deposit retention history.

	2023						Total
	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	No fixed maturity	On Demand	
Liabilities							
Due to banks and other financial institutions	3,418,978	276,548	62,000	-	-	125,388	3,882,914
Customers' deposits							-
Demand	-	-	-	-	-	18,810,969	18,810,969
Saving	-	-	-	-	-	307,758	307,758
Time	8,651,663	2,823,680	1,919,113	-	-	-	13,394,456
Margin	-	-	-	-	-	426,532	426,532
Negative fair value of derivatives	38,475	16,244	194,650	1,244	-	-	250,613
Subordinated debt	-	112,763	1,951,052	-	-	-	2,063,815
	12,109,116	3,229,235	4,126,815	1,244	-	19,670,647	39,137,057
	2022						Total
	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	No fixed maturity	On Demand	
Liabilities							
Due to banks and other financial institutions	3,205,534	550,000	388,618	-	-	68,732	4,212,884
Customers' deposits							
Demand	-	-	-	-	-	15,001,961	15,001,961
Time	7,985,442	5,008,532	1,080,265	-	-	-	14,074,239
Saving	-	-	-	-	-	323,649	323,649
Margin	-	-	-	-	-	922,498	922,498
Negative fair value of derivatives	124	30,740	187,589	113,106	-	-	331,559
	11,191,100	5,589,272	1,656,472	113,106	-	16,316,840	34,866,790

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

36. 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 advantageous accessible market

Determination of fair value and fair value hierarchy

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

- 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.

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.

At 31 December 2023	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Investments held at FVOCI	36,897	26,565	-	10,332	36,897
Investments held at FVSI	282,806	24,887	257,919	-	282,806
Positive fair value of derivatives	316,414	-	316,414	-	316,414
Financial assets not measured at fair value					
Investments held at amortised cost	8,785,836	-	5,158,393	3,330,123	8,488,516
Loans and advances	27,299,961	-	-	26,710,214	26,710,214

At 31 December 2022	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Investments held at FVOCI	296,412	289,529	-	6,883	296,412
Investments held at FVSI	203,003	23,488	179,515	-	203,003
Positive fair value of derivatives	417,480	-	417,480	-	417,480
Financial assets not measured at fair value					
Investments held at amortised cost	6,292,987	-	4,127,401	2,004,015	6,131,416
Loans and advances	24,790,737	-	-	25,138,163	25,138,163

At 31 December 2023	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
Financial liabilities measured at fair value					
Negative fair value of derivatives	250,613	-	250,613	-	250,613
Financial liabilities not measured at fair value					
Customers' deposits	32,105,619	-	-	32,528,178	32,528,178
Subordinated debt	1,504,072	-	-	1,503,888	1,503,888

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

36. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

At 31 December 2022	Fair value				Total
	Carrying value	Level 1	Level 2	Level 3	
<i>Financial liabilities measured at fair value</i>					
Negative fair value of derivatives	331,559	-	331,559	-	331,559
<i>Financial liabilities not measured at fair value</i>					
Customers' deposits	29,595,010	-	-	28,912,211	28,912,211

Cash and balances with Saudi Central bank (SAMA), due from banks, due to banks and other financial assets and liabilities are assumed to have fair values that reasonably approximate their corresponding carrying values due to their 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 31 December 2023 and 2022.

The Group'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 Group 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:

Investment held at FVSI

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

Investment held at FVOCI

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

Loans and advances and customer deposits

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 Group's weighted average discount rate. The fair values of fixed rate / variable loans and deposits 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

36. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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 consolidated statement of financial position 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.

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.

37. CAPITAL RISK MANAGEMENT

The Bank actively manages its capital base to cover the risks inherent in its business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision including the framework and guidance regarding the implementation of capital reforms under Basel III ("Basel III Accord") which has been adopted by the Bank's regulator, SAMA. The Basel III capital ratios measure capital adequacy by comparing the Bank's eligible capital with its balance sheet assets, commitments and notional amount of derivatives at a weighted amount to reflect their relative risk. SAMA requires holding a minimum level of regulatory capital and maintaining a ratio of total regulatory capital to risk-weighted assets ("RWA") at or above 10.5%, including a capital conservation buffer (2.5%).

The Group monitors the adequacy of its capital using the methodology and ratios established by SAMA. Various committees have been established by the bank which also monitors the capital adequacy. These ratios measure capital adequacy by comparing the Group's eligible capital with its assets, commitments and contingencies, and notional amounts of derivatives at a weighted amount to reflect their relative risk.

38. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Group transacts business with related parties. Related party transactions are governed by limits set by the Banking Control Law and regulations issued by SAMA. The Group uses the exemptions in respect of related parties' disclosures for government-related entities in IAS 24 "Related Party Disclosures". Transactions with related parties which are considered individually significant are included below. The balances and transaction related to government related entities are also disclosed in following figures.

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

	<u>2023</u>	<u>2022</u>
Gulf International Bank BSC, its subsidiaries and branches:		
Due from banks and other financial institutions	72,082	542,512
Due to banks and other financial institutions	123,725	947,137
Other assets	51,741	127,147
Other liabilities	141,647	145,020
Public Investment Fund and its related entities:		
Loans and advances	3,423,463	2,841,875
Customers' deposits	8,803,467	10,296,798
Investments	525,731	407,245

(ii) Off-balance sheet balances are as follows:

	<u>2023</u>	<u>2022</u>
Gulf International Bank BSC, its subsidiaries and branches:		
Derivatives	9,873,330	12,004,034
Contingencies and commitments	1,621,904	1,380,255
Public Investment Fund and its related entities:		
Derivatives	851,193	2,457,918
Contingencies and commitments	4,595,676	3,698,700

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

38. RELATED PARTY TRANSACTIONS (continued)

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

	<u>2023</u>	<u>2022</u>
Gulf International Bank BSC, its subsidiaries and branches:		
Special commission income	9,380	1,477
Special commission expense	13,093	7,768
Fees and commission income and expense, net	955	318
Public Investment Fund and its related entities:		
Special commission income	170,957	76,166
Special commission expense	245,139	161,685
Fees and commission income and expense, net	37,023	26,731

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

	<u>Note</u>	<u>2023</u>	<u>2022</u>
Short-term employee benefits	27	28,168	21,512
Post-employment benefits		5,459	3,171
Directors' remuneration and other expenses	30	7,088	6,556

39. CAPITAL ADEQUACY

As part of the latest SAMA guidance on Accounting and Regulatory Treatment of COVID-19 Extraordinary Support Measures, Banks are now allowed to add-back up to 100% of the transitional adjustment amount to Common Equity Tier 1 (CET1) for the full two years' period comprising 2021 and 2022 effective from 31 March 2021 financial statement reporting. The add-back amount must be then phased-out on a straight-line basis over the subsequent 3 years. These revised transitional arrangements to the Group's Tier 1 and Tier 1 + 2 ratio have no significant impact on the Group.

The current period numbers are presented as per Basel III final reform issued by SAMA (circular number 44047144) effective from 1 January 2023, while the prior period is based on Basel III regulations.

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.

	<u>2023</u>	<u>2022</u>
Risk-weighted exposure		
Credit risk RWA	40,200,319	34,974,262
Operational risk RWA	1,217,537	1,361,785
Market risk RWA	2,784,820	459,678
Total risk-weighted exposure	<u>44,202,676</u>	<u>36,795,725</u>
Regulatory capital base		
Tier I capital	7,409,183	7,182,483
Tier II capital	1,796,088	250,361
Total regulatory capital base	<u>9,205,271</u>	<u>7,432,844</u>
Capital adequacy ratios		
Tier I ratio	16.76%	19.52%
Total ratio	<u>20.83%</u>	<u>20.20%</u>
Tier I + Tier II ratio	<u>20.83%</u>	<u>20.20%</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

40. PROFIT SHARING INVESTMENT ACCOUNTS

(a) Analysis of PSIA income according to types of investments and their financing

As of 31 December 2023, all joint financing is funded by comingled pool which includes funds from Unrestricted Investment Account holder:

	<u>2023</u>
Gross Financing by type of contract:	
Murabaha	15,933,708
Ijarah	<u>141,112</u>
Total financing	<u><u>16,074,820</u></u>

(b) The basis for calculating and allocating profits between the bank and the IAHS;

	<u>2023</u>
Total pool Income from Financing and placements	<u><u>1,103,635</u></u>
Pool Income	1,103,635
Mudarib fee	(131,071)
Movement to or from PER/IRR	-
Total amount paid to IAH Mudaraba	<u>(133,960)</u>
Total amount attributable to shareholders pool	<u><u>838,604</u></u>

	<u>2023</u>
Bank's Share in %	75.99%
Investment Account Holder's Share %	24.01%
Bank's Share including Mudarib fee	969,675
Investment Account Holder's Share	133,960

(c) the equity of the IAHS at the end of the reporting period:

	<u>2023</u>
Investment account holders balance before profit	3,268,024
Add: profit for the IAH during the year	133,960
Less: profit paid out during the year	(133,960)
Total value of Investment Account Holders before share of profits and before the fair value reserves	<u><u>3,268,024</u></u>
Share in fair value reserve	-
Other movement {(Customers in / (out) / Change in account balances)}	<u>223,532</u>
Total equity for Investment Account Holders	<u><u>3,491,556</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

40. PROFIT SHARING INVESTMENT ACCOUNTS (continued)

(d) Basis for determining any PER or IRR

Profit equalization reserve (PER) is created by appropriating a specific amount out of the profits earned on the commingled pool of assets before the allocation to shareholders and unrestricted investment account holders. The amounts appropriated to PER reduce the profits available for distribution to both categories of investors, shareholders and investment account holders.

PER allows Bank to mitigate considerably their exposure to displace commercial risk. PER collectively belongs to investment account holders and shareholders for smoothing their profit payouts. While the purpose of these reserves is to enhance the profit payout to IAH in periods when the assets in an Bank's asset pool have underperformed, it is also the case that a PER can be used for smoothing or enhancing dividend payouts to shareholders if so desired by the management.

Investment risk reserve (IRR) is created by setting aside amounts out of the profit attributable to investment account holders, after deducing the Mudarib share, in order to cushion the effects of future investment losses on investment account holders. The IRR enables the Bank's to cover, fully or partially, unexpected losses on investments. Where the losses are fully covered, use of PER may enable a profit payout to be made to the IAH notwithstanding the loss.

With regard to both the PER and IRR, IAH agree in advance in the contract that regulates their relationship with Bank, that a proportion of their income may be appropriated to each of these reserves. This amount is determined by the management of the Bank at their discretion. As per the current profit distribution, management believes that we have sufficient buffer in the revenues generated from the pool, to pay the expected profit rates to profit sharing investment account holders, and hence also protect the capital of the investment account holders, from any possible losses. The management will continue to monitor and would create reserves in future, if required. Keeping in view the profitability of the mudaraba pool, to create any further buffer needed, to continue to pay the expected profit rates to the investment account holders, while keeping the capital of the investment account holders protected for any possible losses.

The profit equalization reserve (PER) and investment risk reserve (IRR) are techniques and to cushion the effect of any possible future investment losses which are used to manage and mitigate below risk faced by Bank.

Displaced commercial risk

Rate of return risk can give rise to displaced commercial risk. Bank may be under pressure to pay a return that is above the rate earned on assets to match the competitors' rates. Bank cannot provide their customers fixed guaranteed returns on their deposits or investments. Instead, they follow risk/return sharing model. However, in practice, investment account holders are likely to expect competitive returns. This lead to displaced commercial risk for Banks. It is vital for Banks to effectively manage their displaced commercial risk to be able to compete with their conventional counterparts. To mitigate displaced commercial risk, Banks may decide to waive their portions of profits and thus dissuade investment account holders from withdrawing funds. However, the practice of foregoing part or all of shareholders' profits can adversely affect the bank's own capital which can lead to insolvency in extreme cases.]]

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2023
(AMOUNTS IN SAR'000)

41. IBOR TRANSITION (INTEREST RATE BENCHMARK REFORMS)

Management has completed the Group's overall transition activities through engagement with various stakeholders to support an orderly transition and concluded on the transition plan for the exposures not yet transitioned to alternate benchmark interest rates. The Group was exposed to the effects of USD LIBOR reform on its financial assets and liabilities, as set out within the table below as of 31 December 2022. However, during the year ended 31 December 2023, the group had transitioned to an alternative interest rate benchmark.

<u>USD LIBOR</u>	Non- derivative financial assets' carrying value	Non-derivative financial liabilities' carrying value	Derivatives' nominal amount
<u>31 December 2023</u>			
LIBOR USD (1 months)	-	-	-
LIBOR USD (3 months)	-	-	-
LIBOR USD (6 months)	-	-	-
LIBOR USD (12 months)	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>
<u>USD LIBOR</u>	Non- derivative financial assets' carrying value	Non-derivative financial liabilities' carrying value	Derivatives' nominal amount
<u>31 December 2022</u>			
LIBOR USD (1 months)	57,075	-	-
LIBOR USD (3 months)	141,288	30,000	2,204,557
LIBOR USD (6 months)	358,467	-	1,820,250
LIBOR USD (12 months)	51,382	-	-
	<u>608,212</u>	<u>30,000</u>	<u>4,024,807</u>
	<u>608,212</u>	<u>30,000</u>	<u>4,024,807</u>

42. INVESTMENT MANAGEMENT AND BROKERAGE SERVICES

The Group through its subsidiary (GIB Capital Company), manages private investment portfolios on behalf of customers with managed assets totalling SAR 7.18 billion (2022: SAR 11.66 billion). This includes funds managed under Shari'ah approved portfolios amounting to SAR 2.28 (2022: SAR 2.99).

43. EVENTS AFTER THE REPORTING DATE

There were no significant events between the reporting and authorisation date of these consolidated financial statements, which requires adjustment or disclosure in these consolidated financial statements.

44. BOARD OF DIRECTORS' APPROVAL

These consolidated financial statements were approved by the Board of Directors on 15 February 2024G (corresponding to 5 Sha'ban 1445H).