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

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

Ernst & Young Professional Services

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

1st Floor, Battoyor Tower
King Saud Road, Al Safa
P.O. Box 4803
Al Khobar, 31952
Kingdom of Saudi Arabia
Headquarters in Riyadh

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

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 2021, 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, which include significant accounting policies and other explanatory 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 2021, and its consolidated financial performance and its consoildated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Chartered and Professional Accountants ("SOCPA") (collectively referred to as "IFRS as endorsed in Kingdom of Saudi Arabia").

Basis for Opinion

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

Other Information included in the Group's 2021 Annual Report

Management is responsible for the other information in the Group's annual report. Other information consists of the information included in the Group's 2021 annual report, other than the consolidated financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

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

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Ernst & Young Professional Services
(Professional LLC)
Paid-up capital SR 5,500,000
Registration No. 45/11/323
C.R. No. 2051058792

KPMG Professional Services
(Professional Closed Joint Stock Company)
Paid-up capital SR 25,000,000
Licence No. 46/11/323 issued on 11/3/1992
C.R. No. 2051062328

Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of Gulf International Bank – Saudi Arabia (A Saudi Closed Joint Stock Company) (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 the IFRS that are endorsed in Kingdom of Saudi Arabia, the applicable requirements of the Regulation for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-Laws, and for such internal control as management determines is necessary to enable the preparation of the 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 have no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of the internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 acitivities 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 reponsible for our audit opinion.

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

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

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

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 applicable requirements of the Regulation for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-laws in so far as they affect the preparation and presentation of the consolidated financial statements for the year ended 31 December 2021.

Ernst & Young Professional Services

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

Marwan S. AlAfaliq
Certified Public Accountant
License No. 422

KPMG Professional Services

P.O. Box 4803
Al Khobar 31952
Kingdom of Saudi Arabia

Dr. Abdullah Hamad Al Fozan
Certified Public Accountant
License No. 348

11 Shaban 1443H
(14 March 2022)

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021
(AMOUNTS IN SAR'000)

	Note	2021	2020
ASSETS			
Cash and balances with Saudi Central Bank (SAMA)	5	**5,004,482**	8,924,059
Due from banks and other financial institutions	6	**2,440,895**	1,267,331
Investments held at fair value through statement of income (FVSI)	7	**205,155**	224,465
Investments held at fair value through other comprehensive Income (FVOCI)	7	**299,644**	370,052
Investments held at amortised cost (AC), net	7	**5,361,683**	2,566,536
Positive fair value of derivatives	8	**198,332**	284,991
Loans and advances, net	9	**23,574,920**	18,786,117
Other assets	10	**407,964**	152,420
Furniture, fixtures and equipment	11	**60,288**	65,820
Right-of-use assets	12	**197,931**	217,943
Intangible assets	13	**38,259**	47,036
Total assets		**37,789,553**	32,906,770
LIABILITIES AND EQUITY			
Liabilities			
Due to banks and other financial institutions	14	**2,326,917**	2,320,715
Customers' deposits	15	**27,236,460**	22,368,371
Negative fair value of derivatives	8	**222,676**	324,578
Other liabilities	16	**684,510**	620,675
Lease liabilities	12	**201,445**	213,278
Total liabilities		**30,672,008**	25,847,617
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		**22,917**	(8,982)
Accumulated losses		**(407,125)**	(433,618)
Total equity attributable to the shareholders of the Bank		**7,117,545**	7,059,153
Total equity		**7,117,545**	7,059,153
Total liabilities and equity		**37,789,553**	32,906,770

The consolidated financial statements were approved by the Board of Directors on 17 February 2022 and signed on its behalf by :-

Abdulla Mohammed Al Zamil
Chairman

Abdulaziz A. Al-Helaissi
Chief Executive Officer

Faisal Sabbagh
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 2021
(AMOUNTS IN SAR'000)

	Note	2021	2020
Special commission income	20	631,488	686,341
Special commission expense	20	(161,936)	(225,233)
Net special commission income		469,552	461,108
Fee and commission income	21	189,568	98,188
Fee and commission expense	21	(9,314)	(3,942)
Net fee and commission income		180,254	94,246
Exchange income, net	22	25,382	26,442
Gains on investments held at FVSI, net	23	86,034	20,844
Gains on other financial instruments, net	24	20,037	2,916
Dividend income	25	11,538	10,827
Other income	26	11,366	11,251
Total operating income		804,163	627,634
Salaries and employees' related expenses	27	(346,609)	(264,264)
Rent and premises related expenses	28	(13,793)	(14,678)
Depreciation and amortisation	29	(65,913)	(79,920)
Other general and administrative expenses	30	(185,918)	(168,467)
Operating expenses before expected credit losses		(612,233)	(527,329)
Expected credit losses (charge) / reversal on:			
Loans and advances	9	(57,951)	(518,084)
Financial contingencies and commitments	19	2,037	(11,380)
Investments	7	(346)	2,662
Total expected credit losses		(56,260)	(526,802)
Total operating expenses		(668,493)	(1,054,131)
Net income / (loss) for the year before zakat		135,670	(426,497)
Zakat charge	31	(24,706)	(11,498)
Net income / (loss) for the year		110,964	(437,995)
Attributable to:			
Shareholders of the Bank		110,964	(437,995)
Net income / (loss) for the year		110,964	(437,995)
Earnings per share (expressed in SAR per share)			
Basic and diluted earnings / (loss) per share		0.148	(0.584)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021
(AMOUNTS IN SAR'000)

	Note	2021	2020
Net income / (loss)		**110,964**	(437,995)
Other comprehensive income			
Items that will not be reclassified to the consolidated statements of income in subsequent periods:			
- Net change in fair value of FVOCI investments		**12,857**	(11,027)
- Actuarial gains on defined benefit pension plans		**800**	1,296
Other comprehensive income / (loss) for the year		**13,657**	(9,731)
Total comprehensive income / (loss) for the year		**124,621**	(447,726)
Attributable to:			
Shareholders of the Bank		**124,621**	(447,726)
Total comprehensive income / (loss) for the year		**124,621**	(447,726)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021
(AMOUNTS IN SAR'000)

	Share capital	Statutory reserve	Fair value reserve	Accumulated losses	Total equity
Balance at 1 January 2021	**7,500,000**	**1,753**	**(8,982)**	**(433,618)**	**7,059,153**
Net income for the year	-	-	-	110,964	110,964
Other comprehensive income for the year					
Net change in fair value of FVOCI investments	-	-	12,857	-	12,857
Actuarial gains on defined benefit pension plan	-	-	-	800	800
Total other comprehensive income for the year	-	-	12,857	800	13,657
Total comprehensive income for the year	-	-	12,857	111,764	124,621
Transfer from fair value reserve to accumulated losses	-	-	19,042	(19,042)	-
Consideration paid in excess of net assets acquired of a subsidiary (note 4)	-	-	-	(66,229)	(66,229)
Balance at 31 December 2021	**7,500,000**	**1,753**	**22,917**	**(407,125)**	**7,117,545**

	Share capital	Statutory reserve	Fair value reserve	(Accumulated losses) / retained earnings	Total equity
Balance at 1 January 2020	7,500,000	1,753	2,045	3,081	7,506,879
Net loss for the year	-	-	-	(437,995)	(437,995)
Other comprehensive loss for the year					
Net change in fair value of FVOCI investments	-	-	(11,027)	-	(11,027)
Actuarial gains on defined benefit pension plan	-	-	-	1,296	1,296
Total other comprehensive loss for the year	-	-	(11,027)	1,296	(9,731)
Total comprehensive loss for the year	-	-	(11,027)	(436,699)	(447,726)
Transfer from fair value reserve to accumulated losses	-	-	-	-	-
Balance at 31 December 2020	7,500,000	1,753	(8,982)	(433,618)	7,059,153

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 2021
(AMOUNTS IN SAR'000)

	Note	2021	2020
OPERATING ACTIVITIES			
Net income / (loss) before zakat		135,670	(426,497)
Adjustments to reconcile net income / (loss) before zakat to net cash flow (used in) / generated from operating activities:			
Depreciation of furniture, fixtures and equipment	11	24,454	26,873
Amortisation of intangible assets	13	14,239	24,978
Depreciation of right-of-use assets	12	27,220	28,069
Write-off of furniture, fixtures and equipment and intangible assets	11, 13	5,583	113
(Reversal) / charge of expected credit losses on financial contingencies and commitments	19	(2,037)	11,380
Expected credit losses on loans and advances	9	57,951	518,084
Charge / (reversal) of expected credit losses on investments	7	346	(2,662)
Gains on investments held at FVSI	23	(86,034)	(20,844)
Interest expense on lease liabilities	12	11,161	12,298
Gains on other financial instruments, net	24	(20,037)	(2,916)
		168,516	168,876
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		(460,389)	(108,671)
Positive fair value of derivatives		106,696	(121,116)
Loans and advances, net		(4,846,754)	(1,819,831)
Other assets		(249,319)	(11,571)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		6,202	1,742,246
Negative fair value of derivatives		(101,902)	148,839
Customers' deposits		4,868,089	651,613
Other liabilities		33,117	154,408
Net cash (used in) / generated from operating activities		(475,744)	804,793
INVESTING ACTIVITIES			
Purchase of investments		(2,808,107)	(413,200)
Proceeds from sale of investments		215,644	40,000
Purchase of furniture, fixtures and equipment	11	(19,987)	(23,231)
Purchase of intangible assets	13	(6,753)	(14,023)
Acquisition of a subsidiary, net of cash	4	(77,429)	-
Net cash used in investing activities		(2,696,632)	(410,454)
FINANCING ACTIVITY			
Payments of lease liabilities	12	(34,026)	(33,593)
Net cash used in financing activity		(34,026)	(33,593)
Net change in cash and cash equivalents		(3,206,402)	360,746
Cash and cash equivalents at the beginning of the year		9,064,213	8,703,467
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	32	5,857,811	9,064,213
Supplemental non-cash information			
Net change in fair value of equity investments held at FVOCI		12,857	(11,027)

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 2021
(AMOUNTS IN SAR'000)

1. GENERAL

Gulf International Bank – Saudi Arabia (a Closed Joint Stock Company - incorporated in the Kingdom of Saudi Arabia) 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 with the number of employees totalling 616 as at 31 December 2021 excluding outsourced employees (31 December 2020: 591). The address of the Bank's Head Office is as follows:

Gulf International Bank – Saudi Arabia
5515 Cooperative Council Road
AlKhuzama Area, unit No: 54, AlKhobar
Kingdom of Saudi Arabia

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

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

	Ownership interest held by			
	Owners of the Bank		Non-controlling interests	
Name of subsidiary	**2021**	2020	**2021**	2020
GIB Capital Company (a)	**100**	-	**-**	-
Dar Enjaz Gulf Real Estate Company (b)	**100**	100	**-**	-
GIB Opportunistic Saudi Equity Fund - (c)	**80.19**	92.35	**19.81**	7.65
GIB Saudi Equity Fund - (c)	**92.34**	99.25	**7.66**	0.75
GIB Opportunistic Mena Equity Fund (d)	**99.93**	99.96	**0.07**	0.04
GIBC Investment Fund 15 (d)	**100**	100	**-**	-
GIB KSA Markets Limited (e)	**100**	-	**-**	-

a. GIB Capital Company - a limited liability company incorporated in the 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. GIB Capital Company has employees totalling 55 as at 31 December 2021.

b. Dar Enjaz Gulf Real Estate Company 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. Incorporated in the Kingdom of Saudi Arabia, the fund's investment objective is to generate returns by investing in equity instruments listed on Tadawul.

d. Incorporated in the Kingdom of Saudi Arabia, the fund's investment objective is to generate returns by investing in the Middle East and North Africa (MENA) equity instruments.

e. A limited liability company incorporated in the Cayman Islands. The Company is engaged in derivatives trading and repo activities.

Since the subsidiaries are wholly or substantially owned by the Bank, the non-controlling interest is insignificant and therefore not disclosed. All of the above-mentioned subsidiaries have been consolidated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2021
(AMOUNTS IN SAR'000)

2. BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements of the Group have been prepared:

- In accordance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by Saudi Organization for Chartered and Professional Accountants ("SOCPA"); and
- In compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and by-laws of the Bank.

b) Basis of measurement and presentation

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 stated in order of liquidity.

c) Functional and presentation currency

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

d) Period of consolidated financial statements

According to Clause 46 of the Bank's By-laws, the Bank's fiscal year begins on 1 January and ends on 31 December of each Gregorian year.

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. The impact of the COVID-19 pandemic on each of these estimates is discussed further in the relevant note of these consolidated financial statements.

Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

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

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

The 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:

2. BASIS OF PREPARATION (continued)

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

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

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) Classification of investments at amortised cost

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

iii) Residual value, depreciation, amortisation and useful lives

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

iv) Fair value measurement

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

v) 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.

vi) 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.

vii) Government grant

The recognition of government grant income is subject to management's judgements, including determination of interest rate and the systematic basis over which the government grant will be recorded.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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2. BASIS OF PREPARATION (continued)

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

viii) Provisions for liabilities and charges

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

ix) Defined benefit plan

The cost of defined benefit post-employment benefits and the present value of the related obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, withdrawal before normal retirement age, mortality rates etc. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

x) Zakat

The Group is subject to zakat in accordance with the Zakat, Tax and Customs Authority ("ZATCA") regulations. Zakat is provided on an accrual basis. Zakat computation involves relevant knowledge and judgement of the zakat rules and regulations to assess the impact of zakat liability at a particular period end. This liability is considered as an estimate until the final assessment by ZATCA is raised until which the Group retains exposure to additional zakat liability.

xi) Determination of lease terms

In determining the lease terms, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease terms if the lease is reasonably certain to be extended or not terminated. The Group also reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

xii) Acquisition of subsidiary

Fair value of the consideration transferred (including contingent consideration) and fair value of the assets acquired and liabilities assumed, measured on a provisional basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies, estimates and assumptions used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual financial statements of the Bank for the year ended 31 December 2020 except for changes in accounting policies and based on the adoption of new standards and in consideration of current economic environment.

Changes in accounting policies

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

From 1 January 2021, management has changed its accounting policy and voluntarily opted out of the exemption of preparing consolidated financial statements. Accordingly, these financial statements represent the first set of annual consolidated financial statements, and management has applied the revised accounting policies retrospectively with respect to consolidation of subsidiaries. Since the change in accounting polices did not have a material impact on the previously issued financial statements of the Bank up until 31 December 2020, therefore, it is not disclosed.

New standards, interpretations and amendments adopted by the Group

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. The following standards, interpretations or amendments are effective from the current year and are adopted by the Group, however, these do not have any material impact on the consolidated financial statements of the year:

Standards, interpretations, amendments	Description	Effective date
Amendments to IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform - Phase 2	The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The Phase 2 amendments provide additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform. Whilst adoption is not mandatory for September 2021 year ends, earlier application is permitted. Please also refer to note 40 to these consolidated financial statements.	Annual periods beginning on or after 1 January 2021
Amendment to IFRS 16, 'Leases' - COVID-19 related rent concessions	As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. On 28 May 2020, the IASB published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.	Annual periods beginning on or after 1 June 2020

Accounting standards issued but not yet effective

The International Accounting Standards Board (IASB) has issued the following accounting standards, interpretations and amendments, which were effective from periods on or after 1 January 2022. The Group has opted not to early adopt these pronouncements and they do not have a significant impact on the consolidated financial statements of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
Accounting standards issued but not yet effective (continued)

Standards, interpretations, amendments	Description	Effective date
Amendment to IFRS 16, 'Leases' - COVID-19 related rent concessions Extension of the practical expedient	As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. In May 2020, the IASB published an amendment to IFRS 16 that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. On 31 March 2021, the IASB published an additional amendment to extend the date of the practical expedient from 30 June 2021 to 30 June 2022. Lessees can select to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.	Annual periods beginning on or after 1 April 2021
A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16	*Amendments to IFRS 3, 'Business combinations'* update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. *Amendments to IAS 16, 'Property, plant and equipment'* prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in consolidated statement of income. *Amendments to IAS 37,* 'Provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be loss-making. *Annual improvements make minor amendments to IFRS 1*, 'First-time Adoption of IFRS', IFRS 9, 'Financial instruments', IAS 41, 'Agriculture' and the Illustrative Examples accompanying IFRS 16, 'Leases'.	Annual periods beginning on or after 1 January 2022.
Amendments to IAS 1, 'Presentation of Financial Statements', on classification of liabilities	These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability. Note that the IASB has issued a new exposure draft proposing changes to this amendment.	Deferred until accounting periods starting not earlier than 1 January 2024
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.	Annual periods beginning on or after 1 January 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2021
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting standards issued but not yet effective (continued)

Standards, interpretations, amendments	Description	Effective date
Amendment to IAS 12, 'Income taxes', 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.	Annual periods beginning on or after 1 January 2023.
IFRS 17, 'Insurance Contracts', as amended in June 2020	This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.	Annual periods beginning on or after 1 January 2023.
A narrow-scope amendment to the transition requirements in IFRS 17, 'Insurance Contracts'	The amendment relates to insurers' transition to the new Standard only it does not affect any other requirements in IFRS 17. IFRS 17 and IFRS 9 Financial Instruments have different transition requirements. For some insurers, these differences can cause temporary accounting mismatches between financial assets and insurance contract liabilities in the comparative information they present in their financial statements when applying IFRS 17 and IFRS 9 for the first time. The amendment will help insurers to avoid these temporary accounting mismatches and, therefore, will improve the usefulness of comparative information for investors. It does this by providing insurers with an option for the presentation of comparative information about financial assets.	Annual periods beginning on or after 1 January 2023.

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 entities which are directly or indirectly controlled by the Group. The Group controls an entity (the 'investee') over which it is exposed, 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. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which the control is transferred from the Group. Intragroup transactions and balances have been eliminated upon consolidation.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a. Basis of consolidation (continued)

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 (is recorded if material), 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.

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

The financial statements of subsidiaries are prepared for the same reporting period as that of the Bank. The 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Business combination under IFRS 3

Accounting for business combinations under IFRS 3 only applies if it is considered that a business has been acquired. Under IFRS 3, 'Business combinations', a business is defined as an integrated set of activities and assets 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 expensed as incurred. Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognised directly in the consolidated statement of income.

Goodwill, if any, 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)
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3. SUMMARY OF SIGNIFICANT 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 other financial assets are classified as 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)
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3. SUMMARY OF SIGNIFICANT 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 when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Financial instruments (continued)

iv) Derecognition (continued)

Financial assets

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 recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

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

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in the consolidated statement of income on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

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 Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised, and a new financial asset is recognised at fair value 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 profit or loss 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 derecognises a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in the consolidated statement of income. If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective special commission rate and the resulting gain or loss is recognised in consolidated statement of income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2021
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3. SUMMARY OF SIGNIFICANT 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Financial instruments (continued)

vi) Impairment (continued)

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.

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 and loan commitments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Financial instruments (continued)

vii) Financial guarantees and loan commitments (continued)

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. Subsequently, they are measured at the higher of this amortised amount and the amount of loss allowance. The Group has issued no loan commitments that are measured at FVSI. For other loan commitments, the Group recognises loss allowance.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f. Revenue / expense recognition (continued)

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. 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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 net trading income. 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.

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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j. Derivative financial instruments and hedge accounting (continued)

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.

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.

Interest Rate Benchmark Reform issued in September 2019 (the Phase 1 amendments)

If a hedging relationship is directly affected by IBOR reform, then the Group applies certain exceptions in the Phase 1 amendments to the general hedge accounting policy. The Group considers that a hedging relationship is directly affected by IBOR reform if it is subject to the following uncertainty arising from the reform:

- An interest rate benchmark subject to the reform is designated as the hedged risk, regardless of whether the rate is contractually specified; and/or
- The timing or amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument is uncertain.

When the uncertainty arising from IBOR reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item or hedging instrument or when the hedging relationship is discontinued, the Group ceases to apply the respective Phase 1 amendments.

However, when determining whether a previously designated forecast transaction is no longer expected to occur, the Group continues to assume that the hedged interest rate benchmark cash flows will not be altered as a result of IBOR reform in accordance with the Phase 1 exemption.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j. Derivative financial instruments and hedge accounting (continued)

Interest Rate Benchmark Reform issued in September 2019 (the Phase 1 amendments) (continued)

The Group has concluded that as at 31 December 2021 there is no uncertainty in relation to IBOR reform in respect of its hedging relationships.

Interest Rate Benchmark Reform issued in August 2020 (the Phase 2 amendments)

When the basis for determining the contractual cash flows of the hedged item or hedging instrument changes as a result of IBOR reform and therefore there is no longer uncertainty arising about the cash flows of the hedged item or the hedging instrument, the Group amends the hedge documentation of that hedging relationship to reflect the change(s) required by IBOR reform. For this purpose, the hedge designation is amended only to make one or more of the following changes:

- Designating an alternative benchmark rate as the hedged risk;
- Updating the description of the hedged item, including the description of the designated portion of the cash flows or fair value being hedged;
- Updating the description of the hedging instrument; or
- Updating the description of how the entity will assess hedge effectiveness.

The Group amends the description of the hedging instrument only if the following conditions are met:

- It makes a change required by IBOR reform by using an approach other than changing the basis for determining the contractual cash flows of the hedging instrument;
- The chosen approach is economically equivalent to changing the basis for determining the contractual cash flows of the original hedging instrument; and
- The original hedging instrument is not derecognised.

The Group amends the formal hedge documentation by the end of the reporting period during which a change required by IBOR reform is made to the hedged risk, hedged item or hedging instrument. These amendments in the formal hedge documentation do not constitute the discontinuation of the hedging relationship or the designation of a new hedging relationship.

If changes are made in addition to those economically equivalent changes required by IBOR reform described above, then the Group considers whether those additional changes result in the discontinuation of the hedge accounting relationship. If the additional changes do not result in the discontinuation of the hedge accounting relationship, then the Group amends the formal hedge documentation for changes required by IBOR reform as mentioned above.

When the interest rate benchmark on which the hedged future cash flows had been based is changed as required by IBOR reform, for the purpose of determining whether the hedged future cash flows are expected to occur, the Group deems that the hedging reserve recognised in OCI for that hedging relationship is based on the alternative benchmark rate on which the hedged future cash flows will be based.

k. Foreign currencies

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 and is chaired by the Chief Executive Officer.

Expert judgement is involved for valuation of significant assets, such FVOCI financial assets, and significant liabilities, such as contingent consideration. Involvement of experts is decided upon annually by the investment committee after discussion with and approval by the 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)
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3. SUMMARY OF SIGNIFICANT 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 the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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

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. 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:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n. Furniture, fixtures and equipment (continued)

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

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

q. Accounting for leases (continued)

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.

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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

s. End of service benefits (defined benefit plan) (continued)

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 consolidated statement of income. Zakat is not accounted for as income tax and 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 amortised 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 Bank 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.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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4. CHANGES IN COMPOSITION OF THE GROUP

a. Acquisition of a subsidiary

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

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

	At 1 January 2021
CONSIDERATION PAID IN CASH	256,717
VALUE OF ASSETS ACQUIRED AT 1 JANUARY 2021	
Short-term deposits	170,000
Investment held at FVOCI	23,285
Bank balances	9,288
Advances, prepayments and other current assets	9,192
Accounts receivable	4,400
Right-of-use-assets	3,824
Receivable against margin lending	3,538
Furniture, fixture, equipment and intangibles	3,227
Total assets acquired	226,754
VALUE OF LIABILITIES ASSUMED AT 1 JANUARY 2021	
Lease liabilities	3,511
Employees' terminal benefits	7,871
Accrued expenses and other current liabilities	24,884
Total liabilities assumed	36,266
NET ASSETS ACQUIRED AT 1 JANUARY 2021	190,488
Transferred directly to equity (consideration paid in excess of net assets acquired)	66,229
Consideration paid	256,717
Cash and cash equivalents acquired (short-term deposits and bank balances)	(179,288)
Net outflow reflected in the consolidated statement of cash flows	77,429

Since the above transaction is an acquisition of an entity under common control, the assets acquired and liabilities assumed are accounted for at book value, and the difference between consideration paid and net assets acquired is transferred to the accumulated losses in accordance with the accounting policy - "business combination under common controlled transactions" as defined in note 3.

b. Incorporation of a subsidiary

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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5. CASH AND BALANCES WITH SAUDI CENTRAL BANK (SAMA)

	2021	2020
Money market placements with SAMA (note 5.1)	3,424,952	7,781,783
Statutory deposits (note 5.2)	1,557,521	1,097,132
Cash in hand	19,350	34,491
Current account	2,659	10,653
	5,004,482	8,924,059

5.1 Money market placements with SAMA represents overnight reverse repo placement with SAMA that mature on 2 January 2022 (2020: 3 January 2021).

5.2 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, 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.

6. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2021	2020
Current accounts	535,685	486,980
Money market placements	1,905,210	780,351
	2,440,895	1,267,331
The above includes Shariah based balances as below:		
Murabaha placements	50,002	300,094

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, therefore, no expected credit losses has been considered.

7. INVESTMENTS

a) Investment securities are classified as follows:

	2021	2020
Investments held at amortised cost - gross (7g)	5,362,744	2,567,251
Less: expected credit losses (7h)	(1,061)	(715)
Investments held at amortised cost - net (7d)	5,361,683	2,566,536
Investments held at fair value through statement of income (7e)	205,155	224,465
Investments held at fair value through other comprehensive income (7f)	299,644	370,052
	5,866,482	3,161,053

b) Investment securities include Shariah based investments as follows:

	2021	2020
Investments held at amortised cost	3,058,080	2,311,579
Investments held at fair value through statement of income	88,994	94,011
	3,147,074	2,405,590

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

	2021	2020
Government and quasi government	4,467,870	2,031,565
Corporate	1,188,420	799,386
Banks and other financial institutions	211,253	330,817
Less: expected credit losses	(1,061)	(715)
	5,866,482	3,161,053

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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7. INVESTMENTS (continued)

d) Investments held at amortised cost (AC), net

	2021		
	Quoted	**Unquoted**	**Total**
Debt securities - fixed-rate securities	**4,737,479**	**65,472**	**4,802,951**
Debt securities - floating-rate securities	**484,722**	**75,071**	**559,793**
Less: expected credit losses	**(807)**	**(254)**	**(1,061)**
	5,221,394	**140,289**	**5,361,683**

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

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

	2021	2020
Mutual funds	**180,256**	165,990
Equity investments	**24,899**	58,475
	205,155	224,465

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

	2021	2020
Equity investments	**299,644**	370,052

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 2021, the Group disposed of certain investments measured at FVOCI and realised a total loss of SAR 19 million. 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.

	2021	2020
Balance at 1 January	**5,128**	7,976
Further investments made	**3,750**	-
Net change in fair value	**(2,780)**	(2,848)
Balance at 31 December	**6,098**	5,128

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 2021	**Stage 1 (12-month ECL)**	**Stage 2 (lifetime ECL but not credit-impaired)**	**Total**
Balance at 1 January 2021	**2,567,251**	**-**	**2,567,251**
Transfer between the stages	**-**	**-**	**-**
Total transfers	**-**	**-**	**-**
Net change	**2,795,493**	**-**	**2,795,493**
Balance at 31 December 2021	**5,362,744**	**-**	**5,362,744**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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7. INVESTMENTS (continued)

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

31 December 2020	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL but not credit-impaired)	Total
Balance at 1 January 2020	2,151,760	37,286	2,189,046
Transfer between the stages	-	-	-
Total transfers	-	-	-
Net change	415,491	(37,286)	378,205
Balance at 31 December 2020	2,567,251	-	2,567,251

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 2021	**Stage 1 (12-month ECL)**	**Stage 2 (lifetime ECL but not credit-impaired)**	**Total**
Balance at 1 January 2021	**715**	**-**	**715**
Transfer between the stages	**-**	**-**	**-**
Net remeasurement of loss allowance	**346**	**-**	**346**
Balance at 31 December 2021	**1,061**	**-**	**1,061**

31 December 2020	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL but not credit-impaired)	Total
Balance at 1 January 2020	664	2,713	3,377
Transfer between the stages	-	-	-
Net remeasurement of loss allowance	51	(2,713)	(2,662)
Balance at 31 December 2020	715	-	715

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

31 December 2021	**Stage 1 (12-month ECL)**	**Stage 2 (lifetime ECL but not credit-impaired)**	**Total**
Grades 1-4 : low fair risk	**5,362,744**	**-**	**5,362,744**
Grades 5-7 : watch list	**-**	**-**	**-**
	5,362,744	**-**	**5,362,744**

31 December 2020	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL but not credit impaired)	Total
Grades 1-4 : low fair risk	2,567,251	-	2,567,251
Grades 5-7 : watch list	-	-	-
	2,567,251	-	2,567,251

8. 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.

The Group has concluded that as at 31 December 2021 its fair value and cash flow hedging relationship were no longer subject to uncertainty driven by IBOR reform. Accordingly, the Group:

- Ceased to apply the assumptions that the hedged benchmark interest rate, the cash flows of the hedged item and/or hedging instrument are not altered as a result of IBOR reform when the uncertainty arising from IBOR reform was no longer present;
- Amended the formal hedge documentation of these hedging relationship to reflect the changes required by IBOR reform by the end of the reporting period during which the changes occurred and amended the description of the hedging instrument in the formal hedge documentation when a fallback provision inserted in a hedging instrument was triggered. These changes in the formal hedge documentation did not cause a discontinuation of the hedging relationship; and
- Remeasured the cumulative changes in the hedged cash flows and the hedging instrument based on new alternative benchmark rates – i.e. SOFR or SONIA – when the uncertainty arising from IBOR reform was removed. For the purpose of remeasuring the cumulative changes in the hedged cash flows, the Group amended the terms of the hypothetical derivative to reflect the changes required by IBOR reform in the hedged item.

8. DERIVATIVES (continued)

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.

Held for hedging purposes

The Group has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange 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 currency and commission rate risks. This is generally achieved by hedging specific transactions as well as strategic hedging against overall statement of financial position exposures. Strategic hedging, other than portfolio hedges for commission rate risk, do not qualify for special hedge accounting and related derivatives are accounted for as held for trading.

The 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 2021

Derivative financial instruments	Positive fair value	Negative fair value	Notional amount
Held for trading			
Commission rate swaps	144,529	(142,563)	10,836,866
Commission rate futures and options	46,376	(46,377)	5,157,569
Forward foreign exchange contracts	3,922	(4,915)	2,818,888
Held as fair value hedges			
Commission rate swaps - loans	3,498	(28,623)	1,012,383
Commission rate swaps - deposits	7	(198)	1,170,020
	198,332	(222,676)	20,995,726

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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8. DERIVATIVES (continued)

31 December 2020

Derivative financial instruments	Positive fair value	Negative fair value	Notional amount
Held for trading			
Commission rate swaps	242,114	(244,476)	8,194,751
Commission rate futures and options	42,211	(42,229)	1,874,028
Forward foreign exchange contracts	201	(201)	726,430
Held as fair value hedges			
Commission rate swaps - loans	420	(37,373)	820,302
Commission rate swaps - deposits	45	(299)	1,589,831
	284,991	(324,578)	13,205,342

31 December 2021

Derivative financial instruments	**Within 3 months**	**3 - 12 months**	**1 - 5 years**	**Over 5 years**	**Total**
Held for trading					
Commission rate swaps	**-**	**-**	**3,943,756**	**6,893,110**	**10,836,866**
Commission rate futures and options	**-**	**-**	**5,157,569**	**-**	**5,157,569**
Forward foreign exchange contracts	**1,987,874**	**831,014**	**-**	**-**	**2,818,888**
Held as fair value hedges					
Commission rate swaps - loans	**-**	**-**	**419,448**	**592,935**	**1,012,383**
Commission rate swaps - deposits	**-**	**1,000,017**	**170,003**	**-**	**1,170,020**
	1,987,874	**1,831,031**	**9,690,776**	**7,486,045**	**20,995,726**

31 December 2020

Derivative financial instruments	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Held for trading					
Commission rate swaps	-	-	2,523,146	5,671,605	8,194,751
Commission rate futures and options	-	86,969	1,787,059	-	1,874,028
Forward foreign exchange contracts	126,440	599,990	-	-	726,430
Held as fair value hedges					
Commission rate swaps - loans	-	-	445,568	374,734	820,302
Commission rate swaps - deposits	-	1,142,855	446,976	-	1,589,831
	126,440	1,829,814	5,202,749	6,046,339	13,205,342

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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8. 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.

31 December 2021 **Hedged items**	**Fair value**	**Hedge inception value**	**Hedging instrument**	**Positive fair value**	**Negative fair value**
Loans	**(25,125)**	**1,012,383**	**Commission rate swap**	**3,498**	**(28,623)**
Deposits	**(191)**	**1,170,020**	**Commission rate swap**	**7**	**(198)**

31 December 2020 Hedged items	Fair value	Hedge inception value	Hedging instrument	Positive fair value	Negative fair value
Loans	(36,953)	820,302	Commission rate swap	420	(37,373)
Deposits	(254)	1,589,831	Commission rate swap	45	(299)

Approximately 47% (2020: 38%) of the positive fair value of the Group's derivatives are entered into with financial institutions and less than 53% (2020: 62%) of the positive fair value contracts are with non-financial institutions counterparties at the reporting date. Approximately 81% (2020: 91%) of the negative fair value of the Group's derivatives are entered into with financial institutions and less than 19% (2020: 9%) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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9. LOANS AND ADVANCES, NET

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

31 December 2021	**Commercial loans**	**Overdrafts**	**Retail loans**	**Total**
Performing loans and advances	**20,586,520**	**1,903,868**	**1,063,247**	**23,553,635**
Non-performing loans and advances	**576,385**	**-**	**1,687**	**578,072**
Loans and advances, gross	**21,162,905**	**1,903,868**	**1,064,934**	**24,131,707**
Less: expected credit losses	**(535,542)**	**(894)**	**(20,351)**	**(556,787)**
Loans and advances, net	**20,627,363**	**1,902,974**	**1,044,583**	**23,574,920**

31 December 2020	Commercial loans	Overdrafts	Retail loans	Total
Performing loans and advances	17,109,503	760,709	721,890	18,592,102
Non-performing loans and advances	792,281	-	1,334	793,615
Loans and advances, gross	17,901,784	760,709	723,224	19,385,717
Less: expected credit losses	(582,233)	(911)	(16,456)	(599,600)
Loans and advances, net	17,319,551	759,798	706,768	18,786,117

b) Reconciliation of gross carrying amount:

31 December 2021	**Stage 1 (12-month ECL)**	**Stage 2 (lifetime ECL but not credit-impaired)**	**Stage 3 (lifetime ECL credit-impaired)**	**Total**
Balance at 1 January 2021	**17,546,331**	**1,045,771**	**793,615**	**19,385,717**
Transferred from financial contingencies and commitments (note 19)	**-**	**-**	**63,683**	**63,683**
Transfers during the year				
Transfer to Stage 1	**56,127**	**(56,127)**	**-**	**-**
Transfer to Stage 2	**(85,496)**	**271,315**	**(185,819)**	**-**
Transfer to Stage 3	**(32,595)**	**(60,108)**	**92,703**	**-**
	(61,964)	**155,080**	**(93,116)**	**-**
Written-off during the year	**-**	**-**	**(164,447)**	**(164,447)**
Net change during the year	**4,864,659**	**3,758**	**(21,663)**	**4,846,754**
Balance at 31 December 2021	**22,349,026**	**1,204,609**	**578,072**	**24,131,707**

31 December 2020	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL but not credit-impaired)	Stage 3 (lifetime ECL credit-impaired)	Total
Balance at 1 January 2020	15,743,034	1,144,867	1,401,208	18,289,109
Transfers during the year				
Transfer to Stage 1	185,540	(185,540)	-	-
Transfer to Stage 2	(440,883)	440,883	-	-
Transfer to Stage 3	-	(110,482)	110,482	-
	(255,343)	144,861	110,482	-
Written-off during the year	-	-	(698,825)	(698,825)
Net change during the year	2,058,640	(243,957)	(19,250)	1,795,433
Balance at 31 December 2020	17,546,331	1,045,771	793,615	19,385,717

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9. LOANS AND ADVANCES, NET (continued)

c) Reconciliation of expected credit losses:

31 December 2021	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL but not credit-impaired)	Stage 3 (lifetime ECL credit-impaired)	Total
Balance at 1 January 2021	90,097	73,230	436,273	599,600
Transferred from financial contingencies and commitments (note 19)	-	-	63,683	63,683
Transfers during the year				
Transfer to Stage 1	435	(435)	-	-
Transfer to Stage 2	(736)	64,343	(63,607)	-
Transfer to Stage 3	(775)	(12,668)	13,443	-
	(1,076)	51,240	(50,164)	-
Charge/(reversal) during the year				
Corporate	(28,226)	44,422	35,050	51,246
Retail	569	2,419	3,717	6,705
	(27,657)	46,841	38,767	57,951
Written-off during the year				
Corporate	-	-	(161,700)	(161,700)
Retail	-	-	(2,747)	(2,747)
	-	-	(164,447)	(164,447)
Balance at 31 December 2021	61,364	171,311	324,112	556,787

31 December 2020	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL but not credit-impaired)	Stage 3 (lifetime ECL credit-impaired)	Total
Balance at 1 January 2020	46,395	62,532	671,414	780,341
Transfers during the year				
Transfer to Stage 1	1,308	(1,308)	-	-
Transfer to Stage 2	(1,830)	1,830	-	-
Transfer to Stage 3	-	(12,505)	12,505	-
	(522)	(11,983)	12,505	-
Charge during the year				
Corporate	35,517	20,811	450,990	507,318
Retail	8,707	1,870	189	10,766
	44,224	22,681	451,179	518,084
Written-off during the year				
Corporate	-	-	(696,686)	(696,686)
Retail	-	-	(2,139)	(2,139)
	-	-	(698,825)	(698,825)
Balance at 31 December 2020	90,097	73,230	436,273	599,600

d) Expected credit losses for the year:

	2021	2020
Corporate	51,246	507,318
Retail	6,705	10,766
Total	57,951	518,084

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9. LOANS AND ADVANCES, NET (continued)

e) Details of Shariah based loans and advances:

	2021	2020
Corporate loans	15,265,251	12,576,162
Expected credit losses	(281,868)	(334,733)
	14,983,383	12,241,429
Credit cards	16,657	13,335
Expected credit losses	(1,296)	(1,087)
	15,361	12,248
Personal finance	1,048,277	709,889
Expected credit losses	(19,055)	(15,369)
	1,029,222	694,520

f) Past due but not impaired:

	2021	2020
Corporate - (1-30 days)	115,853	238,775
Corporate - (more than 30 days)	15,646	-
Retail - (1-30 days)	42,221	31,037
Total	173,720	269,812

g) Credit quality of gross loans and advances:

31 December 2021	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL but not credit-impaired)	Stage 3 (lifetime ECL credit-impaired)	Total
Grades 1-4: Low - fair risk	18,702,807	2,005	-	18,704,812
Grades 5-7: Watch list	3,646,219	1,202,604	-	4,848,823
Grade 8: Substandard	-	-	225,612	225,612
Grade 9: Doubtful	-	-	352,455	352,455
Grade 10: Loss	-	-	5	5
	22,349,026	1,204,609	578,072	24,131,707

31 December 2020	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL but not credit-impaired)	Stage 3 (lifetime ECL credit-impaired)	Total
Grades 1-4: Low - fair risk	13,266,138	41,708	-	13,307,846
Grades 5-7: Watch list	4,280,194	1,004,062	-	5,284,256
Grade 8: Substandard	-	-	620,617	620,617
Grade 9: Doubtful	-	-	172,637	172,637
Grade 10: Loss	-	-	361	361
	17,546,332	1,045,770	793,615	19,385,717

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9. LOANS AND ADVANCES, NET (continued)

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

31 December 2021	Performing loans and advances	Non-performing loans and advances	Loans and advances, gross	Expected credit losses	Loans and advances, net
Agriculture and fishing	956,986	-	956,986	(2,970)	954,016
Manufacturing	4,349,301	60,609	4,409,910	(40,203)	4,369,707
Energy and utilities	141,386	-	141,386	(158)	141,228
Building and construction	1,903,058	74,251	1,977,309	(64,193)	1,913,116
Wholesale retail trade	3,127,976	85,900	3,213,876	(189,528)	3,024,348
Real estate business	1,785,320	-	1,785,320	(5,767)	1,779,553
Transportation	343,284	283,214	626,498	(187,837)	438,661
Services	671,975	72,411	744,386	(3,368)	741,018
Finance	4,043,242	-	4,043,242	(6,808)	4,036,434
Communication	254,955	-	254,955	(226)	254,729
Health care	43,573	-	43,573	(881)	42,692
Petrochemical	2,671,050	-	2,671,050	(5,011)	2,666,039
Others	2,198,282	-	2,198,282	(29,486)	2,168,796
Retail	1,063,247	1,687	1,064,934	(20,351)	1,044,583
	23,553,635	578,072	24,131,707	(556,787)	23,574,920

31 December 2020	Performing loans and advances	Non-performing loans and advances	Loans and advances, gross	Expected credit losses	Loans and advances, net
Agriculture and fishing	1,052,259	-	1,052,259	-	1,052,259
Manufacturing	1,693,510	65,758	1,759,268	(29,469)	1,729,799
Energy and utilities	152,868	-	152,868	-	152,868
Building and construction	1,391,317	121,774	1,513,091	(117,315)	1,395,776
Wholesale retail trade	3,360,195	285,399	3,645,594	(108,945)	3,536,649
Real estate business	1,319,793	-	1,319,793	-	1,319,793
Transportation	1,017,271	283,214	1,300,485	(183,068)	1,117,417
Services	393,416	36,136	429,552	-	429,552
Finance	4,225,719	-	4,225,719	(144,347)	4,081,372
Communication	225,158	-	225,158	-	225,158
Health care	72,473	-	72,473	-	72,473
Petrochemical	1,359,659	-	1,359,659	-	1,359,659
Others	1,606,575	-	1,606,575	-	1,606,575
Retail	721,889	1,334	723,223	(16,456)	706,767
	18,592,102	793,615	19,385,717	(599,600)	18,786,117

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10. OTHER ASSETS

	2021	2020
Due from related parties (note 37)	**270,546**	93,531
Prepayments	**41,184**	34,474
Margin lending receivables	**35,359**	-
Accrued interest on derivatives	**18,731**	10,576
Fees and commission accrued	**12,429**	-
Value added tax receivable	**2,192**	3,446
Outward clearing cheques	**2,133**	99
Others	**25,390**	10,294
	407,964	152,420

11. FURNITURE, FIXTURES AND EQUIPMENT

2021	**Leasehold improvements**	**Furniture, equipment and vehicles**	**Work in progress**	**Total**
Cost:				
Balance at 1 January 2021	**75,559**	**137,251**	**15,576**	**228,386**
Additions	**200**	**874**	**18,913**	**19,987**
Acquisition of a subsidiary (note 4)	**4,788**	**8,160**	**-**	**12,948**
Transfers	**6,145**	**22,099**	**(28,244)**	**-**
Write-offs / impairment	**(3,730)**	**(3,670)**	**(3,750)**	**(11,150)**
Balance at 31 December 2021	**82,962**	**164,714**	**2,495**	**250,171**
Accumulated depreciation:				
Balance at 1 January 2021	**49,564**	**113,002**	**-**	**162,566**
Charge for the year	**11,458**	**12,996**	**-**	**24,454**
Acquisition of a subsidiary (note 4)	**3,052**	**6,929**	**-**	**9,981**
Write-offs	**(3,728)**	**(3,390)**	**-**	**(7,118)**
Balance at 31 December 2021	**60,346**	**129,537**	**-**	**189,883**
Carrying amount at 31 December 2021	**22,616**	**35,177**	**2,495**	**60,288**

2020	Leasehold improvements	Furniture, equipment and vehicles	Work in progress	Total
Cost:				
Balance at 1 January 2020	63,014	129,504	31,838	224,356
Additions	817	227	22,187	23,231
Transfers	13,111	18,230	(31,341)	-
Reclassification to intangible assets	-	-	(7,108)	(7,108)
Write-offs	(1,383)	(10,710)	-	(12,093)
Balance at 31 December 2020	75,559	137,251	15,576	228,386
Accumulated depreciation:				
Balance at 1 January 2020	40,718	106,955	-	147,673
Charge for the year	10,160	16,713	-	26,873
Write-offs	(1,314)	(10,666)	-	(11,980)
Balance at 31 December 2020	49,564	113,002	-	162,566
Carrying amount at 31 December 2020	25,995	24,249	15,576	65,820

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12. LEASES

(a) Right-of-use assets

	2021	2020
Balance at 1 January	217,943	235,981
Additions, net	3,384	10,031
Acquisition of a subsidiary (note 4)	3,824	-
Depreciation	(27,220)	(28,069)
Balance at 31 December	197,931	217,943

(b) Lease liabilities

	2021	2020
Balance at 1 January	213,278	224,542
Additions, net	7,521	10,031
Acquisition of a subsidiary (note 4)	3,511	-
Special commission expense	11,161	12,298
Payments	(34,026)	(33,593)
Balance at 31 December	201,445	213,278

13. INTANGIBLE ASSETS

2021 **Cost:**	**Software**	**Work in progress**	**Total**
Balance at 1 January 2021	135,349	12,112	147,461
Additions	330	6,423	6,753
Acquisition of a subsidiary (note 4)	396	188	584
Transfers	5,500	(5,500)	-
Write-offs	(3,949)	-	(3,949)
Balance at 31 December 2021	137,626	13,223	150,849
Accumulated amortisation:			
Balance at 1 January 2021	100,425	-	100,425
Charge for the year	14,239	-	14,239
Acquisition of a subsidiary (note 4)	324	-	324
Write-offs	(2,398)	-	(2,398)
Balance at 31 December 2021	112,590	-	112,590
Carrying amount at 31 December 2021	25,036	13,223	38,259

2020 Cost	Software	Work in progress	Total
Balance at 1 January 2020	115,240	11,090	126,330
Additions	9,729	4,294	14,023
Transfers	10,380	(10,380)	-
Reclassification from furniture, fixtures and equipment	-	7,108	7,108
Balance at 31 December 2020	135,349	12,112	147,461
Accumulated amortisation:			
Balance at 1 January 2020	75,447	-	75,447
Charge for the year	24,978	-	24,978
Balance at 31 December 2020	100,425	-	100,425
Carrying amount at 31 December 2020	34,924	12,112	47,036

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14. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2021	2020
Current accounts	17,508	46,191
Money market deposits	2,309,409	2,274,524
	2,326,917	2,320,715

Money market deposits include profit free deposits of SAR 532 million (2020: SAR 532 million) from SAMA with 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 as disclosed in note 39.

The above include Shariah based balances as follows:

	2021	2020
Money market deposits	223,605	202,991

15. CUSTOMERS' DEPOSITS

	2021	2020
Demand deposits	12,205,446	11,951,324
Time deposits	13,553,411	8,838,742
Saving accounts	382,178	690,854
Margin	1,095,425	887,451
	27,236,460	22,368,371

The above include foreign currency deposits as follows:

	2021	2020
Demand	2,972,523	1,275,898
Time	567,654	427,701
Others	7,742	8,636
	3,547,919	1,712,235

The above include Shariah approved customer deposits as below:

	2021	2020
Murabaha		
Demand	3,038,404	853,918
Time	10,365,947	274,789
	13,404,351	1,128,707

16. OTHER LIABILITIES

	2021	2020
Loss allowance on loan commitments and financial guarantee contracts	138,195	203,915
Accrued expenses	108,116	50,178
Due to related parties (note 37)	92,194	46,060
End of service benefits	62,723	50,242
Deferred loan fees	49,308	39,549
Sadad payable	52,785	44,685
Accrued interest and other items related to derivatives	34,827	10,289
Provision for zakat (note 31)	27,369	11,497
Sarie payables - others	21,932	9,213
Deferred letter of credit and guarantee fees	18,888	19,689
Government grant	12,881	23,183
Span ATM payable	5,597	3,907
Bankers cheques payable	4,752	36,954
Withholding tax payables	4,308	8,833
Value added tax payable	3,719	3,702
Reserve for deposit protection premium	3,368	2,561
Others	43,548	56,218
	684,510	620,675

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16. OTHER LIABILITIES (continued)

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:

	2021	2020
Balance at 1 January	50,242	45,204
Acquisition of a subsidiary (note 4)	7,871	-
Charge for the year	11,014	8,527
Interest cost during the year	1,462	1,461
Benefits paid during the year	(7,066)	(3,654)
Actuarial gain	(800)	(1,296)
Balance at 31 December	62,723	50,242

(a) Charge for the year

	2021	2020
Current service cost	11,014	8,527
Interest cost	1,462	1,461
	12,476	9,988

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

	2021	2020
(Loss) / gain from change in experience assumptions	(3,531)	1,281
Gain from change in financial assumptions	154	15
Gain from change in demographic assumptions	4,177	-
	800	1,296

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

	2021	2020
Discount rate	2.25% - 2.30%	2.35%
Expected rate of salary increase	1.9% - 2.25%	1.95%
Normal retirement age	60 years	60 years

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

(d) Sensitivity of actuarial assumptions

The table below illustrates the sensitivity of the defined benefit obligation valuation as at 31 December 2021 to the discount rate (2.25% to 2.30%), salary escalation rate (1.90% to 2.25%), withdrawal assumptions and mortality rates.

2021	Impact on defined benefit obligation		
Base scenario	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.50%	(2,235)	2,386
Expected rate of salary increase	0.50%	2,336	(2,209)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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16. OTHER LIABILITIES (continued)

i. End of service benefits (continued)

2020	Impact on defined benefit obligation		
Base scenario	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.50%	(2,641)	2,875
Expected rate of salary increase	0.50%	2,871	(2,663)

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:

	2021	2020
Within the next 12 months (next annual reporting period)	**6,586**	2,824
Between 2 and 5 years	**37,519**	16,912
Beyond 5 years up to 10 years	**47,273**	35,668
Total expected payments	**91,378**	55,404

The average duration of the defined benefits plan obligation at 31 December 2021 is 7.2 years (31 December 2020: 10.95 years).

17. SHARE CAPITAL

The authorised, issued and fully paid share capital at 31 December 2021 and 2020 comprised 750 million shares of SAR 10 each. Basic and diluted earnings per share for the year ended 31 December 2021 and 2020 is calculated on a weighted average basis by dividing the net income for the year by 750 million shares.

	2021	2020
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.

19. CONTINGENCIES AND COMMITMENTS

a) Legal proceedings

As at 31 December 2021, there were no significant legal proceedings outstanding against the Group which requires a disclosure or provision.

b) Capital commitments

As at 31 December 2021 the Group had capital commitments of SAR 35.3 million (2020: SAR 52.7 million) in respect of furniture, fixtures and equipment and intangible assets.

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19. CONTINGENCIES AND COMMITMENTS (continued)

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.

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:

	Notional amounts by term to maturity				
2021	**Within 3 months**	**3 - 12 months**	**1 - 5 years**	**Over 5 years**	**Total**
Letters of credit	**1,318,927**	**773,950**	**10,491**	**-**	**2,103,368**
Letters of guarantee	**1,625,978**	**5,763,731**	**2,185,202**	**109,583**	**9,684,494**
Acceptances	**420,410**	**180,915**	**126,232**	**-**	**727,557**
Irrevocable commitments to extend credit	**-**	**700,257**	**708,647**	**2,002,621**	**3,411,525**
	3,365,315	**7,418,853**	**3,030,572**	**2,112,204**	**15,926,944**

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

The outstanding unused portion of commitments as at 31 December 2021 which can be revoked unilaterally at any time by the Group, amounts to SAR 4,788 million (2020: 4,466 million).

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

	2021	2020
Corporate	**14,274,909**	10,818,617
Banks and other financial institutions	**1,652,035**	1,336,516
	15,926,944	12,155,133

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19. CONTINGENCIES AND COMMITMENTS (continued)

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

31 December 2021	**Stage 1 (12-month ECL)**	**Stage 2 (lifetime ECL but not credit- impaired)**	**Stage 3 (lifetime ECL credit-impaired)**	**Total**
Balance at 1 January 2021	**7,222,062**	**4,443,039**	**490,032**	**12,155,133**
Transferred to loans (note 9)	**-**	**-**	**(63,683)**	**(63,683)**
Transfers during the year				
Transfer to Stage 1	**309,010**	**(309,010)**	**-**	**-**
Transfer to Stage 2	**(19,486)**	**19,486**	**-**	**-**
Transfer to Stage 3	**-**	**(22,352)**	**22,352**	**-**
	289,524	**(311,876)**	**22,352**	**-**
Net change during the year	**3,556,306**	**318,262**	**(39,074)**	**3,835,494**
Balance at 31 December 2021	**11,067,892**	**4,449,425**	**409,627**	**15,926,944**

31 December 2020	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL but not credit-impaired)	Stage 3 (lifetime ECL credit-impaired)	Total
Balance at 1 January 2020	7,139,474	3,733,956	509,313	11,382,743
Transfers during the year				
Transfer to Stage 1	769,059	(769,059)	-	-
Transfer to Stage 2	1,876	(1,876)	-	-
Transfer to Stage 3	-	-	-	-
	770,935	(770,935)	-	-
Net change during the year	(688,347)	1,480,018	(19,281)	772,390
Balance at 31 December 2020	7,222,062	4,443,039	490,032	12,155,133

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

31 December 2021	**Stage 1 (12-month ECL)**	**Stage 2 (lifetime ECL but not credit- impaired)**	**Stage 3 (lifetime ECL credit-impaired)**	**Total**
Balance at 1 January 2021	**10,633**	**10,060**	**183,222**	**203,915**
Transferred to loans (note 9)	**-**	**-**	**(63,683)**	**(63,683)**
Transfers during the year				
Transfer to Stage 1	**196**	**(196)**	**-**	**-**
Transfer to Stage 2	**(15)**	**15**	**-**	**-**
Transfer to Stage 3	**-**	**(2,227)**	**2,227**	**-**
	181	**(2,408)**	**2,227**	**-**
(Reversal) / charge during the year	**(2,091)**	**(1,592)**	**1,646**	**(2,037)**
Balance at 31 December 2021	**8,723**	**6,060**	**123,412**	**138,195**

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19. CONTINGENCIES AND COMMITMENTS (continued)

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

31 December 2020	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL but not credit-impaired)	Stage 3 (lifetime ECL credit-impaired)	Total
Balance at 1 January 2020	6,768	11,558	174,209	192,535
Transfers during the year				
Transfer to Stage 1	61	(61)	-	-
Transfer to Stage 2	(1,211)	1,211	-	-
Transfer to Stage 3	-	-	-	-
	(1,150)	1,150	-	-
Charge / (reversal) during the year	5,015	(2,648)	9,013	11,380
Balance at 31 December 2020	10,633	10,060	183,222	203,915

20. SPECIAL COMMISSION INCOME AND EXPENSE

	2021	2020
Special commission income		
Investments held at amortised cost	**89,811**	67,295
Due from banks and other financial institutions	**28,798**	66,261
Loans and advances	**512,879**	552,785
	631,488	686,341
Special commission expense		
Due to banks and other financial institutions	**2,371**	4,489
Lease liabilities (note 12.b)	**11,161**	12,298
Customers' deposits	**148,404**	208,446
	161,936	225,233
Net special commission income	**469,552**	461,108

The breakup of income from Shariah products is as follows:

	2021	2020
Investments held at amortised cost		
Sukuks	**77,676**	65,567
Due from banks and other financial institutions		
Murabaha	**968**	3,378
Loans and advances		
Murabaha	**339,870**	374,202
	418,514	443,147

The breakup of expense from Shariah products is as follows:

	2021	2020
Due to banks and other financial institutions		
Murabaha	**254**	124
Customers' deposits		
Murabaha	**90,186**	145,632
	90,440	145,756

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21. FEE AND COMMISSION INCOME AND EXPENSE

	2021	2020
Fee and commission income		
Letters of credit	35,403	34,686
Letters of guarantee	30,574	43,827
Other banking services	34,095	19,675
Brokerage	5,640	-
Advisory	43,307	-
Asset management	40,549	-
	189,568	98,188
Fee and commission expense		
Bank charges and commission	(5,037)	(3,112)
Other fees and commission expenses	(4,277)	(830)
	(9,314)	(3,942)
Net fee and commission income	180,254	94,246
Point in time:		
Other banking services	22,117	14,208
Advisory	43,307	-
Over time:		
Trade finance	65,977	78,513
Fees on credit facilities	17,618	5,467
Asset management fee	40,549	-
	189,568	98,188

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. GAINS 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. GAINS ON OTHER FINANCIAL INSTRUMENTS, NET

	2021	2020
Derivatives	15,700	2,916
Gain on sale of debt securities	4,337	-
	20,037	2,916

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 dividend income on equity investments classified as FVOCI.

26. OTHER INCOME

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

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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 2021 and the forms of such payments.

	2021			
Category	**Number of employees**	**Fixed compensation**	**Variable compensation**	**Total**
Senior executives requiring SAMA no objection	**15**	**18,499**	**4,542**	**23,041**
Employees engaged in risk taking activities	**114**	**60,353**	**8,343**	**68,696**
Employees engaged in control functions	**181**	**41,339**	**3,405**	**44,744**
Other employees	**361**	**97,523**	**5,535**	**103,058**
	671	**217,714**	**21,825**	**239,539**
Outsourced employees	**147**	**32,234**	**-**	**32,234**
	818	**249,948**	**21,825**	**271,773**
Variable compensation accrued				**26,178**
Other employee related benefits				**48,658**
Total salaries and employee related expenses per consolidated financial statements				**346,609**

	2020			
Category	Number of employees	Fixed compensation	Variable compensation	Total
Senior executives requiring SAMA no objection	15	14,269	4,558	18,827
Employees engaged in risk taking activities	103	43,307	10,022	53,329
Employees engaged in control functions	163	38,818	4,712	43,530
Other employees	310	77,335	9,251	86,586
	591	173,729	28,543	202,272
Outsourced employees	150	29,314	-	29,314
	741	203,043	28,543	231,586
Variable compensation accrued				9,704
Other employee related benefits				22,974
Total salaries and employee related expenses per financial statements				264,264

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

28. RENT AND PREMISES RELATED EXPENSES

	2021	2020
Office cleaning and other premises expenses	**2,422**	5,614
Repair and maintenance	**3,973**	3,344
Utilities	**3,699**	3,267
Rent expense - (other than right of use assets)	**3,648**	2,336
Others	**51**	117
	13,793	14,678

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29. DEPRECIATION AND AMORTISATION

	2021	2020
Depreciation on furniture, fixtures and equipment (note 11)	**24,454**	26,873
Depreciation on right-of-use assets (note 12)	**27,220**	28,069
Amortisation on intangible assets (note 13)	**14,239**	24,978
	65,913	79,920

30. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	2021	2020
Repair and maintenance	**57,232**	52,057
Valued added tax	**30,695**	15,235
Advertising and business promotion	**15,198**	9,960
Communication and data information services	**13,254**	15,978
Managed services	**12,312**	21,109
Legal, consultancy and statutory fees	**10,106**	18,674
Depositors' protection scheme expenses	**9,908**	8,700
Directors' remuneration and other expenses	**6,267**	3,573
Loss on write-off of furniture, fixtures and equipment and intangible assets	**5,531**	45
Visa card expenses	**4,865**	2,797
Subscription and publication	**4,360**	2,173
Provision for other receivables	**2,657**	-
Insurance	**2,516**	1,520
Corporate social responsibility	**1,323**	4,213
Withholding tax expenses	**862**	2,037
Others	**8,832**	10,396
	185,918	168,467

31. ZAKAT

Gulf International Bank - Saudi Arabia

The provision of zakat liability is estimated based on the results of operations of the Bank. The Bank has accrued a zakat liability of SAR 24.7 million for the year ended 31 December 2021 (31 December 2020: SAR 11.5 million).

Status of assessments

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

GIB Capital Company

In 2016, the Company obtained an approval from ZATCA for an exemption to pay zakat. Accordingly, the Company has not considered zakat for the years from 2016 to 2021.

Status of assessments

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

32. CASH AND CASH EQUIVALENTS

	2021	2020
Cash and balances with Saudi Central Bank (SAMA) excluding statutory deposit	**3,446,961**	7,826,927
Due from banks and other financial institutions with original maturities of three months or less	**2,410,850**	1,237,286
	5,857,811	9,064,213

Cash and balances with Saudi Central Bank (SAMA) includes statutory deposits of SAR 1,558 million (31 December 2020: SAR 1,097 million).

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

Special commission received and (paid) during the year amounting to SAR 618.2 million (2020: SAR 757.8 million) and SAR -147.4 million (2020: SAR -284.4 million), respectively.

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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 7. For details of the composition of loans and advances refer to note 9. Information on credit risk relating to derivative instruments is provided in note 8 and for contingencies and commitments in note 19.

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33. FINANCIAL RISK MANAGEMENT (continued)
(a) Credit risk (continued)
33.1 Concentration of risks of financial assets with credit risk exposure and financial liabilities
Geographical concentration

2021	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Total
Assets						
Balance with Saudi Central Bank (SAMA)	4,985,132	-	-	-	-	4,985,132
Due from banks and other financial institutions	1,139,703	286,154	603,224	411,814	-	2,440,895
Investments held at amortised cost, net	5,361,683	-	-	-	-	5,361,683
Investments held at FVOCI	299,644	-	-	-	-	299,644
Investments held at FVSI	205,155	-	-	-	-	205,155
Positive fair value of derivatives	104,965	93,367	-	-	-	198,332
Loans and advances, net	23,574,920	-	-	-	-	23,574,920
Other assets	163,973	173,055	37	-	-	337,065
Total	35,835,175	552,576	603,261	411,814	-	37,402,826
Liabilities						
Due to banks and other financial institutions	801,835	1,522,591	2,454	37	-	2,326,917
Negative fair value of derivatives	41,706	180,970	-	-	-	222,676
Customers' deposits	26,140,280	94,491	1,001,689	-	-	27,236,460
Lease liabilities	201,445	-	-	-	-	201,445
Other liabilities	136,189	57,328	6	-	-	193,523
Total liabilities	27,321,455	1,855,380	1,004,149	37	-	30,181,021
Contingencies and commitments						
Letters of credit	2,065,286	3,871	-	24,811	9,400	2,103,368
Letters of guarantee	8,451,829	228,600	296,279	707,074	712	9,684,494
Acceptances	727,557	-	-	-	-	727,557
Irrevocable commitments to extend credit	3,411,279	246	-	-	-	3,411,525
Maximum credit exposure (stated at credit equivalent amounts)						
Contingencies and commitments						
Letters of credit	787,636	1,031	-	6,607	-	795,274
Letters of guarantee	7,227,253	165,978	77,397	297,475	-	7,768,103
Acceptances	384,494	-	-	-	-	384,494
Irrevocable commitments to extend credit	908,327	-	-	-	-	908,327

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33. FINANCIAL RISK MANAGEMENT (continued)
(a) Credit Risk (continued)
33.1 Concentration of risks of financial assets with credit risk exposure and financial liabilities (continued)
Geographical concentration (continued)

2020	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Total
Assets						
Balance with Saudi Central Bank (SAMA)	8,889,568	-	-	-	-	8,889,568
Due from banks and other financial institutions	681,152	361,167	66,027	158,985	-	1,267,331
Investments held at amortised cost, net	2,566,536	-	-	-	-	2,566,536
Investments held at FVOCI	370,052	-	-	-	-	370,052
Investments held at FVSI	224,465	-	-	-	-	224,465
Positive fair value of derivatives	177,690	107,301	-	-	-	284,991
Loans and advances, net	18,785,892	-	-	-	-	18,785,892
Other assets	58,703	20,418	36	-	-	79,157
Total	31,754,058	488,886	66,063	158,985	-	32,467,992
Liabilities						
Due to banks and other financial institutions	1,609,106	709,119	2,454	36	-	2,320,715
Negative fair value of derivatives	29,963	294,615	-	-	-	324,578
Customers' deposits	21,339,232	28,081	1,001,058	-	-	22,368,371
Lease liabilities	213,278	-	-	-	-	213,278
Other liabilities	156,138	-	21	-	-	156,159
Total liabilities	23,347,717	1,031,815	1,003,533	36	-	25,383,101
Contingencies and commitments						
Letters of credit	1,115,278	-	-	-	362,671	1,477,949
Letters of guarantee	3,923,167	1,902,875	364,706	748,034	1,287,849	8,226,631
Acceptances	1,013,316	-	-	-	117,571	1,130,887
Irrevocable commitments to extend credit	1,319,666	-	-	-	-	1,319,666
Maximum Credit exposure (stated at credit equivalent amounts)						
Contingencies and commitments						
Letters of credit	223,481	-	-	-	72,534	296,015
Letters of guarantee	2,358,638	940,049	182,546	276,701	644,496	4,402,430
Acceptances	1,013,315	-	-	-	117,571	1,130,886
Irrevocable commitments to extend credit	654,088	-	-	-	-	654,088

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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.

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+, and 4 and below, to be significantly deteriorated where they have been downgraded 6 notches, 5 notches, 4 notches and 3 notches respectively since initial recognition, and where the current pricing has not been adjusted to reflect the new risk profile of the counterparty. The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in 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:

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	-

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

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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 2021 included the following ranges of key indicators:

KSA	2022	2023	2024
Base 50%	**Year 1**	**Year 2**	**Year 3**
GDP (%)	(0.2)	3.2	3.7
Surplus (% of GDP)	(10.8)	(9.1)	(8.9)
Positive 15%			
GDP (%)	0.8	4.2	4.7
Surplus (% of GDP)	(9.8)	(8.1)	(7.9)
Negative 35%			
GDP (%)	(1.2)	2.2	2.7
Surplus (% of GDP)	(11.8)	(10.1)	(9.9)

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

Consideration due to COVID-19

In response to the impacts of COVID-19, various support programs have been offered to the customers either voluntarily by the Group or on account of SAMA initiatives, such as customers eligible under the Deferred Payments Program (DPP) (refer to note 39 for further details). The exercise of the deferment option by a customer, on its own, is not consider by the Group as triggering significant increase in credit risk (SICR) and as a consequence impact on ECL for those customers were determined based on their existing staging. However, as part of the Group's credit evaluation process especially given the current economic situation due to aftereffects of lock down, the Group obtained further information from the customers to understand their financial position and ability to repay the amount and in case where indicators of significant deterioration were noted, the customers' credit ratings and accordingly exposure staging were adjusted, where applicable. No change has been made in the backstop criteria for all types of exposures.

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

	Probability	Debt instruments held at amortised cost	Loans and advances	Financial guarantees	Letters of credit	Undrawn commitments
Base	50%	803	190,677	8,676	4,582	1,525
Positive	25%	614	172,452	7,224	3,648	1,136
Negative	25%	1,058	210,202	10,263	5,617	1,974

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33. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

33.2 Credit quality analysis (continued)

Measurement of ECL

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 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 financial institutions and sovereign government exposures, the PDs are based on external rating data of all global financial institutions rated by Standard & Poor's.

The Vasicek Model is used to link the TTC PDs with forward looking economic factors to derive PIT PD estimates for each rating category. 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 and the management's estimated recovery rates for each asset class in the event of default.

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. Only cash and equities (subject to a 25% haircut only for equities) 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 and geographic location 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.

Consideration due to COVID 19

The PD, EAD and LGD models are subject to the Group's model risk policy that stipulates periodic model monitoring, periodic revalidation and defines approval procedures and authorities according to model materiality. During the period, the Group has made following material changes in its ECL methodology to reflect the validation exercise undertaking by the Group:

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

Credit-impaired loans

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

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33. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

33.2 Credit quality analysis (continued)

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 that are credit impaired as at 31 December are as follows:

	2021	2020
Less than 50%	**37,910**	5,039
51-70%	**31,172**	-
More than 70%	**192,958**	229,022
	262,040	234,061

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.

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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 2021 and 2020 are as below, respectively. All the figures are in SAR million:

	Foreign exchange rate risk	Special commission rate risk	Equity price risk	Overall risk
VaR as at 31 December 2021	**0.06**	**0.03**	**1.82**	**1.90**
Average VaR for 2021	**0.14**	**0.02**	**3.90**	**4.06**
VaR as at 31 December 2020	0.21	0.00	9.06	9.27
Average VaR for 2020	0.18	0.00	13.91	14.09

(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 2021 and 2020, including the effect of hedging instruments. All the banking book exposures are monitored and analysed in US Dollars concentration and change. Sensitivities are disclosed in SAR thousands. Sensitivity of special commission income for +100/-100 bps increase in the basis of the US Dollar is SAR +/-47.4 million for 2021 (SAR +/-64 million for 2020).

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 financial instruments 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.

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34. MARKET RISK (continued)

i) Special commission rate risk (continued)

2021	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)	3,424,952	-	-	-	1,579,530	5,004,482
Due from banks and other financial institutions	1,875,165	-	30,045	-	535,685	2,440,895
Investments held at FVSI	-	-	-	-	205,155	205,155
Investments held at amortised cost, net	2,087,690	427,564	854,735	1,991,694	-	5,361,683
Investments held at FVOCI	-	-	-	-	299,644	299,644
Positive fair value of derivatives	-	-	-	-	198,332	198,332
Loans and advances, net						
Overdrafts	1,902,974	-	-	-	-	1,902,974
Credit cards	14,958	-	-	-	-	14,958
Consumer loans	133,068	282,225	496,306	118,026	-	1,029,625
Commercial loans	15,190,393	4,553,102	883,868	-	-	20,627,363
Other assets	-	-	-	-	704,442	704,442
Total assets	24,629,200	5,262,891	2,264,954	2,109,720	3,522,788	37,789,553
Liabilities and equity						
Due to banks and other financial institutions	1,776,469	-	-	-	550,448	2,326,917
Customers' deposits	10,612,576	2,364,690	576,145	-	13,683,049	27,236,460
Negative fair value of derivatives	-	-	-	-	222,676	222,676
Lease liabilities	10,649	12,704	53,326	124,766	-	201,445
Other liabilities	-	-	-	-	684,510	684,510
Shareholders' equity	-	-	-	-	7,117,545	7,117,545
Total liabilities and equity	12,399,694	2,377,394	629,471	124,766	22,258,228	37,789,553
Commission rate sensitivity - on consolidated statement of financial position	12,229,506	2,885,497	1,635,483	1,984,954	(18,735,440)	-
Commission rate sensitivity - Off consolidated statement of financial position	3,365,315	7,418,853	3,030,572	2,112,204	-	15,926,944
Total commission rate sensitivity gap	15,594,821	10,304,350	4,666,055	4,097,158	(18,735,440)	15,926,944
Cumulative commission rate sensitivity gap	15,594,821	25,899,171	30,565,226	34,662,384	15,926,944	122,648,546

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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34. MARKET RISK (continued)

i) Special commission rate risk (continued)

2020	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)	7,781,784	-	-	-	1,142,275	8,924,059
Due from banks and other financial institutions	750,333	-	30,017	-	486,981	1,267,331
Investments held at FVSI	-	-	-	-	224,465	224,465
Investments held at amortised cost, net	57,914	174,071	1,536,584	797,967	-	2,566,536
Investments held at FVOCI	-	-	-	-	370,052	370,052
Positive fair value of derivatives	-	-	-	-	284,991	284,991
Loans and advances, net						
Overdrafts	759,798	-	-	-	-	759,798
Credit cards	12,248	-	-	-	-	12,248
Consumer loans	73,158	3,121	617,106	1,135	-	694,520
Commercial loans	16,044,303	1,275,248	-	-	-	17,319,551
Other assets	-	-	-	-	483,219	483,219
Total assets	25,479,538	1,452,440	2,183,707	799,102	2,991,983	32,906,770
Liabilities and equity						
Due to banks and other financial institutions	693,601	150,000	1,430,923	-	46,191	2,320,715
Customers' deposits	5,338,797	3,499,945	-	-	13,529,629	22,368,371
Negative fair value of derivatives	-	-	-	-	324,578	324,578
Lease liabilities	-	3,805	55,491	153,982	-	213,278
Other liabilities	-	-	-	-	620,675	620,675
Shareholders' equity	-	-	-	-	7,059,153	7,059,153
Total liabilities and equity	6,032,398	3,653,750	1,486,414	153,982	21,580,226	32,906,770
Commission rate sensitivity - On statement of financial position	19,447,140	(2,201,310)	697,293	645,120	(18,588,243)	-
Commission rate sensitivity - Off statement of financial position	3,019,686	6,346,469	2,123,953	665,025	-	12,155,133
Total commission rate sensitivity gap	22,466,826	4,145,159	2,821,246	1,310,145	(18,588,243)	12,155,133
Cumulative commission rate sensitivity gap	22,466,826	26,611,985	29,433,231	30,743,376	12,155,133	121,410,551

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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 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 2021 and 2020, 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.

	2021 - effect on net income	2020 - effect on net income
USD	2,575 / (2,574)	3,608 / (3,608)
EURO	10 / (10)	2,565 / (2,565)
GBP	19 / (19)	9 / (9)
JPY	23 / (23)	15 / (15)

iii) 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:

	2021	2020
US Dollar	51,489	72,164
Japanese Yen	458	293
Euro	199	51,309
Pound Sterling	383	187
Others	3,947	3,255
	56,476	127,208

iv) Equity price risk

Equity risk refers to the risk of decrease in fair values of equities in the Group's non-trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks. The effect on the Group's equity investments held at FVOCI due to reasonable possible change in equity indices, with all other variables held constant is as follows:

Market indices		Change in equity price%	Effect (SAR 'million)
Tadawul	2021	-5%	(14.98)
Tadawul	2020	-5%	(18.24)

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35. LIQUIDITY RISK

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

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

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 2021, 22.8% percent 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 2021, 17% of customer deposits are placed with SAMA on an overnight basis and short-term T-bills with SAMA.

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.

In accordance with Banking Control Law and the regulations issued by SAMA, the Group maintains a statutory deposit with SAMA equal to 7% of total demand deposits and 4% of saving and time deposits. In addition to the statutory deposit, the Group also 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.

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 2021 and 2020 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.

	2021					
	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	No fixed maturity	Total
Liabilities						
Due to banks and other financial institutions	1,776,469	-	532,940	-	17,508	2,326,917
Customers' deposits						
Demand	-	-	-	-	12,205,446	12,205,446
Saving	-	-	-	-	382,178	382,178
Time	10,612,576	2,364,690	576,145	-	-	13,553,411
Other	-	-	-	-	1,095,425	1,095,425
Negative fair value of derivatives	-	-	-	-	222,676	222,676
Lease liabilities	13,149	14,852	74,308	246,127	-	348,436
Other liabilities	-	-	-	-	193,523	193,523
	12,402,194	2,379,542	1,183,393	246,127	14,116,756	30,328,012

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35. LIQUIDITY RISK (continued)

	2020					
	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years	No fixed maturity	Total
Liabilities						
Due to banks and other financial institutions	693,052	153,009	1,428,463	-	46,191	2,320,715
Customers' deposits						
Demand	-	-	-	-	11,951,324	11,951,324
Saving	-	-	-	-	690,854	690,854
Time	6,907,781	1,570,705	360,256	-	-	8,838,742
Other	-	-	-	-	887,451	887,451
Negative fair value of derivatives	-	-	-	-	324,578	324,578
Lease liabilities	6,659	19,693	79,039	212,370	-	317,761
Other liabilities	-	-	-	-	156,159	156,159
	7,607,492	1,743,407	1,867,758	212,370	14,056,557	25,487,584

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 advantages accessible market for the asset or liability.

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

Determination of fair value and fair value hierarchy

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

Level 1: Quoted prices in active markets for the same or identical instrument that an entity can access at the measurement date;

Level 2: Quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

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

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.

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36. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

At 31 December 2021		**Fair value**			
	Carrying value	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value					
Investments held at FVOCI	**299,644**	**293,546**	**-**	**6,098**	**299,644**
Investments held at FVSI	**205,155**	**205,155**	**-**	**-**	**205,155**
Positive fair value of derivatives	**198,332**	**-**	**198,332**	**-**	**198,332**
Financial assets not measured at fair value					
Investments held at amortised cost	**5,361,683**	**-**	**3,171,546**	**2,207,181**	**5,378,727**
Loans and advances	**23,574,920**	**-**	**-**	**23,898,431**	**23,898,431**

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

At 31 December 2021		**Fair value**			
	Carrying value	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities measured at fair value					
Negative fair value of derivatives	**222,676**	**-**	**222,676**	**-**	**222,676**
Financial liabilities not measured at fair value					
Customers' deposits	**27,236,460**	**-**	**-**	**26,655,901**	**26,655,901**

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

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36. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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.

Short-term customers' deposits, due to banks and other financial institutions with maturity of less than 90 days and other short-term payables are assumed to have fair values that reasonably approximate their corresponding carrying values due to 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 2021 and 2020.

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
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 loans are estimated on a discounted cash flow basis utilising discount rates equal to prevailing market rates of interest in the respective currencies for loans of similar residual maturity and credit quality. The fair values (level 3) approximate the carrying values.

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.

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.

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37. 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.

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

	2021	2020
Gulf International Bank BSC, its subsidiaries and branches:		
Due from banks and other financial institutions	**222,281**	286,224
Due to banks and other financial institutions	**1,522,985**	887,924
Other assets	**270,546**	72,992
Other liabilities	**92,194**	46,060
Public Investment Fund and its subsidiaries:		
Loans and advances	**3,559,049**	1,966,767
Customers' deposits	**8,705,520**	7,543,385

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

	2021	2020
Gulf International Bank BSC, its subsidiaries and branches:		
Derivatives	**14,496,122**	8,889,104
Contingencies and commitments	**945,618**	986,393
Public Investment Fund and its subsidiaries:		
Derivatives	**1,211,475**	972,826
Contingencies and commitments	**4,061,033**	3,634,546

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

	2021	2020
Gulf International Bank BSC, its subsidiaries and branches:		
Special commission income	**12,605**	3,293
Special commission expense	**979**	2,845
Fees and commission income and expense, net	**10,325**	4,889
Public Investment Fund and its subsidiaries:		
Special commission income	**50,110**	46,404
Special commission expense	**20,918**	34,442
Fees and commission income and expense, net	**19,189**	13,391

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

	2021	2020
Short-term employee benefits	**18,499**	14,990
Post-employment benefits	**2,656**	885
Directors' remuneration and other expenses	**6,267**	3,573

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38. CAPITAL ADEQUACY

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

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

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

	2021	2020
Risk-weighted exposure		
Credit risk RWA	**31,574,014**	25,877,562
Operational risk RWA	**1,091,745**	951,591
Market risk RWA	**466,786**	527,183
Total risk-weighted exposure	**33,132,545**	27,356,336
Regulatory capital base		
Tier I capital	**7,079,286**	7,059,153
Tier II capital	**248,519**	184,737
Total regulatory capital base	**7,327,805**	7,243,890
Capital adequacy ratios		
Tier I ratio	**21.37%**	25.80%
Total ratio	**22.12%**	26.48%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2021
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39. IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES ("ECL") AND SAMA PROGRAMS

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

The Group continues to evaluate the current macroeconomic situation including the impact of the pandemic and resultant government and SAMA support measures, such as repayment holidays and other mitigating packages, have had on the financing portfolio along with conducting review of credit exposure concentrations at a more granular level with particular focus on specific economic sectors, regions, counterparties and collateral protection and taking appropriate customer credit rating actions and initiating restructuring of loans, where required. The Group has also made updates within its ECL model to refine the application of the staging criteria due to SICR on affected customers to be able to differentiate and reflect appropriately in its models.

The Group continues to evaluate the current macroeconomic situation and conducts review of credit exposure concentrations at a more granular level with particular focus on specific economic sectors, regions, counterparties and collateral protection and taking appropriate customer credit rating actions and initiating restructuring of loans, where required. The credit reviews also take into consideration the impact of the government and SAMA support relief programs. To the extent that certain effects cannot be fully incorporated into the ECL model calculations at this point in time, management continues to exercise expert credit judgement to estimate ECL by considering reasonable and supportable information not already included in the quantitative models. Following are the details of management's overlay:

	2021 (SAR' million)	2020 (SAR' million)
Balance at 1 January	**29.2**	-
Provided during the year	**25**	35
Utilised during the year	**(31.3)**	(5.8)
Balance at 31 December	**22.9**	29.2

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

SAMA support programs and initiatives
Private Sector Financing Support Program ("PSFSP")
In response to COVID-19, SAMA launched the Private Sector Financing Support Program ("PSFSP") in March 2020 to provide the necessary support to eligible (Stage 1 and Stage 2) Micro Small and Medium Enterprises ("MSME") as defined by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H. As part of the deferred payments program launched by SAMA in March 2020 and with further extensions to the program till March 2022 announced subsequently, the Group deferred payments and extended maturities on lending facilities to all eligible MSMEs as follows:

Support programs	**Instalment deferred/tenor extended (SAR 'million)**	**Cost of deferral / extension (SAR 'million)**
April 2020 – September 2020	**1,481**	**28.96**
October 2020 – June 2021	**625**	**21.01**
July 2021 – September 2021	**109**	**1.51**
October 2021 – December 2021	**77**	**1.12**
January 2022 - March 2022	**34**	**0.54**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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39. IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES ('ECL") AND SAMA PROGRAMS (continued)

SAMA support programs and initiatives (continued)

Private Sector Financing Support Program ("PSFSP") (continued)

The payment reliefs were considered as short-term liquidity support to address borrowers' potential cash flow shortages. Since July 2021 this support only applied to those MSMEs that were still affected by the COVID-19 precautionary measures in line with guidance issued by SAMA in this regard.

The accounting impact of the above changes in terms of the credit facilities were assessed and treated as per the requirements of IFRS 9 as modification in terms of arrangement.

In order to compensate the related cost that the Group has incurred under the SAMA and other public authorities program, during the years 2021 and 2020, the Group has received multiple profit free deposits from SAMA amounting to SAR 906 million with varying maturities, which qualify as government grants, out of which SAR 374 million matured in 2021.

Management determined based on communication from SAMA that the government grant primarily relates to compensation for the modification loss incurred on the deferral of payments. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. Management has exercised certain judgements in the recognition and measurement of this grant income. During the year ended 31 December 2021, a total of SAR 5.5 million (2020: SAR 35.9 million) has been recognised in the consolidated statement of income with respect to related deposits with an aggregate of SAR 12.8 million deferred grant income as at 31 December 2021 (2020: SAR 18.3 million).

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

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

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

In this regard, during 2020, the Group received a SAR 948 million profit free deposit with one-year maturity. Management has determined based on the communication received from SAMA that this government grant primarily relates to liquidity support. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in the Group recognising total income of SAR 11.65 million. During the year SAR 4.9 million (2020: SAR 6.8 million) has been recognised in the consolidated statement of income with the remaining amount deferred - 2021: nil (2020: SAR 4.9 million). This deposit was repaid in June 2021.

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

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

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

As the Group believes there continues to be uncertainty as to the timing and the methods for transition, under the Phase 1 amendments, IBOR continues to be used as a reference rate as at 31 December 2021 in the valuation of instruments with maturities that exceed the expected end date for IBORs in various jurisdictions and applying to various currencies. Regulatory authorities, relevant benchmark rate administrators and public and private sector working groups globally are considering, and have started to announce mechanisms for, transition to alternative benchmark rates. The Group continues to monitor this guidance as it emerges.

During 2020 the Board established a steering committee, consisting of key finance, risk, IT, treasury, legal and compliance personnel and external advisors, to oversee the Group's IBOR transition plan. This steering committee put in place a transition project for those contracts which reference USD LIBOR to transition them to SOFR, with the aim of minimising the potential disruption to business and mitigating operational and conduct risks and possible financial losses. This transition project is considering changes to systems, processes, risk management and valuation models, as well as managing related tax and accounting implications. As at 31 December 2021, changes required to systems, processes and models have been identified and have been partially implemented. There have been general communications with counterparties, but specific changes to contracts required by IBOR reform have not yet been proposed or agreed.

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

The following table contains details of all of the financial instruments that the Group holds at 31 December 2021 which reference USD LIBOR and have not yet transitioned to an alternative interest rate benchmark:

USD LIBOR *31 December 2021*	Non- derivative financial assets' carrying value	Non-derivative financial liabilities' carrying value	Derivatives' nominal amount
LIBOR USD (1 months)	33,750	-	-
LIBOR USD (3 months)	196,780	30,000	2,759,557
LIBOR USD (6 months)	346,029	-	2,075,250
	576,559	30,000	4,834,807

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

USD LIBOR *31 December 2020*	Non- derivative financial assets' carrying value	Non-derivative financial liabilities' carrying value	Derivatives' nominal amount
LIBOR USD (1 months)	-	-	-
LIBOR USD (3 months)	10,313	30,000	3,163,878
LIBOR USD (6 months)	91,950	-	1,820,250
	102,263	30,000	4,984,128

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

41. COMPARATIVE FIGURES

In order to comply with the current year presentation, expected credit losses on loan commitments and financial guarantee contracts and government grants have been reclassified to other liabilities as follows:

	As previously reported Dr / (Cr)	Effects due to re-classification Dr / (Cr)	**After re-classification Dr / (Cr)**
Statement of financial position as at 31 December 2020			
Loans and advances, net	18,761,718	24,399	**18,786,117**
Other liabilities	(573,094)	(47,581)	**(620,675)**
Government grants	(23,182)	23,182	**-**
Statement of income for the year ended 31 December 2020			
Expected credit losses on loans and advances	524,156	(6,072)	**518,084**
Expected credit losses on financial contingencies and commitments	5,308	6,072	**11,380**

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 9.89 billion out of which is an Islamic portfolio totalling SAR 3.02 billion.

43. EVENTS AFTER THE REPORTING DATE

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

44. BOARD OF DIRECTORS' APPROVAL

These consolidated financial statements were approved by the Board of Directors on 17 February 2022G (corresponding to 16 Rajab 1443H).