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

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three-month and six-month periods ended
30 June 2021 (Unaudited)

CONTENTS OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Building a better working world

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

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of Gulf International Bank – Saudi Arabia, a Saudi Closed Joint Stock Company (the "Bank") and its subsidiaries (collectively referred to as the "Group") as at 30 June 2021, and the related interim consolidated statements of income and comprehensive income for the three-month and six-month periods ended 30 June 2021,and the interim consolidated statements of changes in equity and cash flows for the six-month period ended 30 June 2021, and other explanatory notes (collectively referred to as "the interim condensed consolidated financial statements").

Management is responsible for the preparation and fair presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of Review

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

Conclusion

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

Other regulatory matters

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

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30 Muharram 1443H
7 September 2021

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2021

	Note	30.06.21 (Unaudited) SAR' 000	31.12.20 (Audited) SAR' 000	30.06.20 (Unaudited) SAR' 000
ASSETS				
Cash and balances with Saudi Central Bank (SAMA)		**5,080,038**	8,924,059	7,699,177
Due from banks and other financial institutions		**1,295,845**	1,267,331	1,674,454
Investments held at fair value through statement of income (FVTIS)	6	**215,547**	224,465	182,181
Investments held at fair value through other comprehensive income (FVTOCI)	6	**292,935**	370,052	339,708
Investments held at amortised cost (AC), net	6	**4,983,699**	2,566,536	2,312,763
Positive fair value of derivatives	9	**230,928**	284,991	329,081
Loans and advances, net	7	**21,426,138**	18,786,117	17,247,121
Other assets		**168,468**	152,420	133,312
Property and equipment, net		**71,134**	65,820	69,068
Right-of-use assets, net		**210,853**	217,943	226,492
Intangible assets, net		**43,582**	47,036	56,179
Total assets		**34,019,167**	32,906,770	30,269,536
LIABILITIES AND EQUITY				
Liabilities				
Due to banks and other financial institutions		**1,378,499**	2,320,715	3,015,333
Customers' deposits	8	**24,557,565**	22,368,371	18,782,384
Negative fair value of derivatives	9	**277,361**	324,578	371,851
Government grants	16	**15,536**	23,182	20,129
Other liabilities		**497,683**	597,493	520,103
Lease liabilities		**208,848**	213,278	219,718
Total liabilities		**26,935,492**	25,847,617	22,929,518
Equity attributable to the shareholders of the Bank				
Share capital	13	**7,500,000**	7,500,000	7,500,000
Statutory reserve		**1,753**	1,753	1,753
Fair value reserve		**19,958**	(8,982)	(39,326)
Accumulated losses		**(438,036)**	(433,618)	(122,409)
Total equity attributable to the shareholders of the Bank		**7,083,675**	7,059,153	7,340,018
Total equity		**7,083,675**	7,059,153	7,340,018
Total liabilities and equity		**34,019,167**	32,906,770	30,269,536

The interim condensed consolidated financial statements were approved by the Board of Directors on 27 July 2021 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 19 form an integral part of these interim condensed consolidated financial statements

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

		Three-month ended		Six-month ended	
		30.6.21	30.6.20	**30.6.21**	30.6.20
		(Unaudited)			
	Note	**SAR' 000**	SAR' 000	**SAR' 000**	SAR' 000
Special commission income		**151,640**	163,478	**292,884**	391,598
Special commission expense		**(37,876)**	(53,450)	**(73,616)**	(156,187)
Net special commission income		**113,764**	110,028	**219,268**	235,411
Fee and commission income		**38,813**	25,401	**82,751**	49,645
Fee and commission expense		**(1,071)**	(1,042)	**(1,973)**	(2,570)
Net fee and commission income		**37,742**	24,359	**80,778**	47,075
Exchange income, net		**3,596**	10,603	**8,228**	20,611
Gains / (losses) on FVTIS investments, net		**26,124**	23,790	**57,040**	(21,440)
Gains on other FVTIS financial instruments, net		**3,748**	1,652	**7,169**	2,681
Dividend income		**2,885**	2,651	**5,769**	5,526
Other operating income		**1,959**	-	**2,394**	-
Total operating income		**189,818**	173,083	**380,646**	289,864
Salaries and employee related expenses		**(81,178)**	(58,764)	**(158,953)**	(127,668)
Rent and premises related expenses		**(2,800)**	(3,406)	**(5,685)**	(6,338)
Depreciation and amortisation		**(17,630)**	(20,277)	**(33,410)**	(40,200)
Other general and administrative expenses		**(37,319)**	(41,857)	**(76,231)**	(75,589)
Operating expenses before credit impairment provisions		**(138,927)**	(124,304)	**(274,279)**	(249,795)
Expected credit losses on loans and advances	7	**(12,624)**	(85,205)	**(6,782)**	(172,402)
Reversal / (charge) of expected credit losses on other financial assets		**4,821**	7,760	**(7,333)**	5,877
Reversal of expected credit losses on investments		**64**	2,880	**8**	2,581
Total operating expenses		**(146,666)**	(198,869)	**(288,386)**	(413,739)
Net operating income / (loss) for the period before Zakat		**43,152**	(25,786)	**92,260**	(123,875)
Zakat charge	12	**(8,686)**	(955)	**(10,973)**	(1,615)
Net income / (loss) for the period		**34,466**	(26,741)	**81,287**	(125,490)
Attributable to:					
Shareholders of the Bank		**34,466**	(26,741)	**81,287**	(125,490)
Net income / (loss) for the period		**34,466**	(26,741)	**81,287**	(125,490)
Earnings per share (Expressed in SAR per share)					
Basic and diluted earnings per share	13	**0.05**	(0.04)	**0.11**	(0.17)

The accompanying notes 1 to 19 form an integral part of these interim condensed consolidated financial statements

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

	Three-month ended		Six-month ended	
	30.6.21	30.6.20	**30.6.21**	30.6.20
	(Unaudited)			
	SAR' 000	SAR' 000	**SAR' 000**	SAR' 000
Net income / (loss) for the period	**34,466**	(26,741)	**81,287**	(125,490)
Other comprehensive income / (loss):				
Items that will not be reclassified to the statement of income in subsequent periods:				
- Net changes in fair value of equity investments classified as fair value through other comprehensive income (FVTOCI)	**(7,350)**	37,908	**9,464**	(41,371)
Other comprehensive income / (loss)	**(7,350)**	37,908	**9,464**	(41,371)
Total comprehensive income / (loss) for the period	**27,116**	11,167	**90,751**	(166,861)
Attributable to:				
Shareholders of the Bank				
Total comprehensive income / (loss) for the period	**27,116**	11,167	**90,751**	(166,861)

The accompanying notes 1 to 19 form an integral part of these interim condensed consolidated financial statements

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

2021	Share capital SAR' 000	Statutory reserve SAR' 000	Fair value reserve SAR' 000	Accumulated losses SAR' 000	Total SAR' 000
Balance at the beginning of the period	**7,500,000**	**1,753**	**(8,982)**	**(433,618)**	**7,059,153**
Net income for the period	-	-	-	81,287	81,287
Other comprehensive income for the period	-	-	9,464	-	9,464
Total comprehensive income for the period	-	-	9,464	81,287	90,751
Transfer from fair value reserve to accumulated losses	-	-	19,476	(19,476)	-
Consideration paid in excess of net assets acquired of a subsidiary (note 5)	-	-	-	(66,229)	(66,229)
Balance at the end of the period	**7,500,000**	**1,753**	**19,958**	**(438,036)**	**7,083,675**

2020	Share capital SAR' 000	Statutory reserve SAR' 000	Fair value reserve SAR' 000	(Accumulated losses) / retained earnings SAR' 000	Total SAR' 000
Balance at the beginning of the period	7,500,000	1,753	2,045	3,081	7,506,879
Net loss for the period	-	-	-	(125,490)	(125,490)
Other comprehensive loss for the period	-	-	(41,371)	-	(41,371)
Total comprehensive loss for the period	-	-	(41,371)	(125,490)	(166,861)
Balance at the end of the period	7,500,000	1,753	(39,326)	(122,409)	7,340,018

The accompanying notes 1 to 19 form an integral part of these interim condensed consolidated financial statements

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

	2021 (Unaudited) SAR '000	2020 (Unaudited) SAR '000
OPERATING ACTIVITIES		
Net income / (loss) before Zakat for the period	92,260	(123,875)
Adjustments to reconcile net income / (loss) before Zakat to net cash flow used in operating activities:		
Net accretion of discount on financial assets at amortised cost	(4,296)	(1,224)
Depreciation and amortisation	17,439	25,685
Depreciation of right-of-use assets	15,137	14,515
Reversal of expected credit losses on investments	(8)	(2,581)
Expected credit losses on loans and advances	6,782	172,402
Charge / (reversal) of expected credit losses on other financial assets	7,333	(5,877)
Unrealised gains on other financial instruments	(7,169)	(2,681)
Unrealised (gains) / losses on FVTIS investments	(57,040)	21,440
Interest expense on lease liabilities	5,620	6,375
	76,058	104,179
Net (increase) / decrease in operating assets:		
Statutory deposit with SAMA	(341,910)	(211,373)
Due from banks and other financial institutions	18	(168,122)
Positive fair value of derivatives	61,232	9,489
Loans and advances	(2,646,803)	85,908
Other assets	1,082	23,862
Net increase / (decrease) in operating liabilities:		
Due to banks and other financial institutions	(942,216)	2,436,864
Negative fair value of derivatives	(47,217)	196,112
Customers' deposits	2,189,194	(2,934,374)
Other liabilities	(147,544)	114,225
Net cash used in operating activities	(1,798,106)	(343,230)
INVESTING ACTIVITIES		
Purchase of investments	(2,422,363)	(205,000)
Proceeds from sale of investments	175,824	87,769
Acquisition of a subsidiary, net of cash and cash equivalents acquired	(77,429)	-
Purchase of property, equipment and intangible assets	(16,072)	(37,881)
Net cash used in investing activities	(2,340,040)	(155,112)
FINANCING ACTIVITY		
Principal payments of lease liabilities	(19,253)	(11,199)
Net cash used in financing activity	(19,253)	(11,199)
Net decrease in cash and cash equivalents	(4,157,399)	(529,670)
Cash and cash equivalents at the beginning of the period	9,064,213	8,673,449
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	4,906,814	8,143,779
Supplemental non-cash information		
Net change in fair value of investments classified as fair value through other comprehensive income (FVTOCI)	9,464	(41,371)

The accompanying notes 1 to 19 form an integral part of these interim condensed consolidated financial statements

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

1. INCORPORATION AND REGISTRATION

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

The Bank carried out its operations from its three locations in Riyadh, Jeddah and Dhahran with the number of employees totalling 594 as at 30 June 2021 (31 December 2020: 594 and 30 June 2020: 585) excluding outsourced employees. Upon formation of the Saudi closed joint stock company, the net assets and liabilities of the foreign branch of Gulf International Bank B.S.C – Kingdom of Bahrain were transferred to the Bank at its book value. Transfers of the assets and liabilities were made in accordance with the Articles of Association of the Bank and the resolution of the Bank's shareholders.

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

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

	Ownership interest held by				
	Owners of the Bank		Non-controlling interests		
Name of subsidiary	**30.06.21**	31.12.20	**30.06.21**	31.12.20	Country of incorporation
GIB Capital Company (a)	**100**	-	**-**	-	Kingdom of Saudi Arabia
Dar Enjaz Gulf Real Estate Company (b)	**100**	100	**-**	-	Kingdom of Saudi Arabia
GIB Opportunistic Saudi Equity Fund - (c)	**91.33**	92.35	**8.67**	7.65	Kingdom of Saudi Arabia
GIB Saudi Equity Fund - (c)	**99.46**	99.25	**0.54**	0.75	Kingdom of Saudi Arabia
GIB Opportunistic Mena Equity Fund (d	**99.93**	99.96	**0.07**	0.04	Kingdom of Saudi Arabia
GIBC Investment Fund 15 (d)	**100**	100	**-**	-	Kingdom of Saudi Arabia

a) GIB Capital Company provides financial advisory services in connection with equity placements, mergers, disposals and acquisitions, privatisations, debt capital market products and services, strategic debt advisory and asset management. GIB Capital's clients include institutional investors and high net worth ("HNW") individuals. GIB Capital Company has employees totalling 54 as at 30 June 2021.

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

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

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

2. BASIS OF PREPARATION

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

2. BASIS OF PREPARATION (CONTINUED)

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

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

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

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

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

2.1 CHANGES IN COMPOSITION OF THE GROUP

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

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

3.1 BASIS OF CONSOLIDATION

The accounting policies, estimates and assumptions used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the preparation of the annual financial statements of the Bank for the year ended 31 December 2020 except for the impact of changes in accounting policies due to adoption of new standards (refer 3.6) and change in accounting policies as mentioned below. The Following accounting policies are applicable effective 1 January 2021 replacing / amending or adding to the corresponding accounting policies set out in 2020 financial statements of the Bank.

3.1.1 CHANGE IN ACCOUNTING POLICIES

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

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

The interim condensed consolidated financial statements comprise the financial statements of the Bank and its subsidiaries. Subsidiaries are investees controlled by the Group. Specifically, the Group controls an investee if and only if the Group has:

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

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

3.1.1 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

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

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

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

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

3.2 BUSINESS COMBINATION UNDER IFRS 3

Accounting for business combinations under IFRS 3 only applies if it is considered that a business has been acquired. Under IFRS 3, 'Business Combinations', a business is defined as an integrated set of activities and assets 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.

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

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

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

3.3 BUSINESS COMBINATION UNDER COMMON CONTROL TRANSACTIONS

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

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

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

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
AT 30 JUNE 2021

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

3.4 ASSETS HELD UNDER FIDUCIARY CAPACITY

The Group offers asset management services to its customers, which include management of certain investments on behalf of its customers. Investments held through such arrangements are not treated as assets of the Group and accordingly, are not included in the interim consolidated statement of financial position.

3.5 REVENUE RECOGNITION

IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers. It established a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, the Group recognises revenue at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group recognises revenue when the amount can be reliably measured and it is probable that future economic benefits will flow to the Group. The Group applies the following five-step approach of revenue recognition:

Step 1: Identify the contract with the customer
Step 2: Identify the separate performance obligations under the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to separate performance obligations
Step 5: Recognise revenue when (or as) each performance obligation is satisfied

Based on the above five steps, the revenue recognition policy for the key revenue streams is as follows:

<u>INCOME FROM ADVISORY SERVICES:</u>
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.

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

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

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

<u>MANAGEMENT FEES</u>
Management fees are calculated at rates mentioned in terms and conditions of the fund and are payable quarterly in arrears.

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

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

3.6 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP

INTEREST RATE BENCHMARK REFORM – PHASE 2: AMENDMENTS TO IFRS 9, IAS 39, IFRS 7, IFRS 4 AND IFRS 16

A fundamental review and reform of major interest rate benchmarks is being undertaken globally. The IASB followed a two-phased process for amending its guidance to assist in a smooth transition away from IBOR.

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

Phase (2) - The second phase relates to the replacement of benchmark rates with alternative risk-free rates. Currently, there is uncertainty as to the timing and the methods of transition for phase 2. As a result of these uncertainties, IBOR continues to be used as a reference rate in financial markets and is used in the valuation of instruments with maturities that exceed the expected end date for IBOR.

The LIBOR administrator, ICE Benchmark Administration, is consulting on ceasing publication of all sterling LIBOR settings at the end of 2021, leaving less than one year for firms to remove their remaining reliance on these benchmarks. On 5 March 2021, the Financial Conduct Authority (FCA), the UK regulator, announced that all currencies will either cease or no longer be representative immediately after the following dates:

- 31 December 2021, for Sterling, Euro, Swiss Franc and Japanese Yen LIBOR settings in all tenors, and US Dollar LIBOR 1-week and 2-month settings; and
- 30 June 2023, for US Dollar Overnight, 1-month, 3-month, 6-month and 12-month settings.

These reforms are expected to cause some interest rate benchmarks to either perform differently to the way that they do currently or to disappear. As the Group believes there continues to be uncertainty as to the timing and the methods for transition, under the Phase 1 amendments, IBOR continues to be used as a reference rate as at 30 June 2021 in the valuation of instruments with maturities that exceed the expected end date for IBORs in various jurisdictions and applying to various currencies.

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 transition plan. This steering committee put in place a transition project for those contracts, with the aim of minimising the potential disruption to business and mitigating operational and conduct risks and possible financial losses. This transition project is considering changes to systems, processes, risk management and valuation models, as well as managing related tax and accounting implications. As at 30 June 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 continues to engage with industry participants, to ensure an orderly transition to relevant benchmark and to minimise the risks arising from transition, and it will continue to identify and assess risks associated.

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

- Amendments to IAS 1, Presentation of financial statements', on classification of liabilities
- A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16
- Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8
- IFRS 17, 'Insurance contracts', as amended in June 2020

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5. ACQUISITION OF A SUBSIDIARY

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

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

	SAR '000
Consideration paid in cash	256,717
Value of assets acquired	
Property and equipment	3,227
Investment held at FVTOCI	23,285
Right-of-use-assets	3,824
Accounts receivable	4,400
Receivable against margin lending	3,538
Advances, prepayments and other current assets	9,192
Short-term deposits	170,000
Bank balances	9,288
Total value of assets acquired	226,754
Value of liabilities assumed	
Lease liabilities	3,511
Employees' terminal benefits	7,871
Accrued expenses and other current liabilities	24,884
Total value of liabilities assumed	36,266
Net assets acquired	190,488
Transferred directly to equity (consideration paid in excess of net assets acquired)	66,229

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

6. INVESTMENTS, NET

Investment securities are classified as follows:	**30.06.21 (Unaudited) SAR' 000**	31.12.20 (Audited) SAR' 000	30.06.20 (Unaudited) SAR' 000
Investments at amortised cost	**4,984,406**	2,567,251	2,313,557
Investments at fair value through other comprehensive income	**292,935**	370,052	339,708
Investments at fair value through statement of income	**215,547**	224,465	182,181
Less: expected credit losses on investments at amortised cost	**(707)**	(715)	(794)
	5,492,181	3,161,053	2,834,652

All investments held by the Group are based in Kingdom of Saudi Arabia. FVTIS investments represents the amount invested by the Group in mutual funds of SAR 191.7 million (31 December 2020: SAR 166 million; 30 June 2020: SAR 103.9 million) and equities of SAR 23.6 million (31 December 2020: SAR 58.5 million; 30 June 2020: SAR 78.3 million). Investments at amortised cost only include the investments in debt securities.

Investments at FVTOCI represents only equity investments by the Group. The FVTOCI designation was made on the basis that the investments are expected to be held for the long-term for strategic purposes. During the period ended 30 June 2021, the Group disposed of certain investments measured at FVTOCI and realised a total loss of SAR 19.5 million. These equity securities were disposed off due to a strategic decision by the investment committee.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
AT 30 JUNE 2021

7. LOANS AND ADVANCES, NET

30 June 2021	(Unaudited) SAR '000 Overdrafts	Commercial loans	Retail loans	Total
Performing loans and advances	1,348,228	19,130,497	750,186	21,228,911
Non-performing loans and advances	-	846,630	1,098	847,728
Gross loans and advances	1,348,228	19,977,127	751,284	22,076,639
Less: expected credit losses	(889)	(632,366)	(17,246)	(650,501)
Loans and advances, net	1,347,339	19,344,761	734,038	21,426,138

Performing loans and advances held at amortised cost include SAR 772.3 million that are past due but not impaired.

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

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

30 June 2020	(Unaudited) SAR '000 Overdrafts	Commercial loans	Retail loans	Total
Performing loans and advances	316,324	15,710,471	722,728	16,749,523
Non-performing loans and advances	-	1,447,078	2,122	1,449,200
Gross loans and advances	316,324	17,157,549	724,850	18,198,723
Less: expected credit losses	(973)	(940,605)	(10,024)	(951,602)
Loans and advances, net	315,351	16,216,944	714,826	17,247,121

Performing loans and advances held at amortised cost include SAR 209.3 million that are past due but not impaired.

Total loans and advances include Shariah based loans and advances amounting to SAR 13,462 million (31 December 2020: SAR 13,260 million; 30 June 2020: SAR 12,379 million).

Movement in expected credit losses on loans and advances is as follows:	30.06.21 (Unaudited) SAR' 000	30.06.20 (Unaudited) SAR' 000
Balance at the beginning of the period	599,599	780,247
Charge during the period	6,782	172,402
Transferred from off balance sheet loans and advances	45,683	-
Written off during the period	(1,563)	(1,047)
Balance at the end of the period	650,501	951,602

8. CUSTOMERS' DEPOSITS

	30.06.21 (Unaudited) SAR' 000	31.12.20 (Audited) SAR' 000	30.06.20 (Unaudited) SAR' 000
Demand deposits	13,233,323	11,951,324	9,041,513
Time deposits	10,677,793	8,838,742	8,869,120
Saving accounts	480,229	690,854	526,055
Others	166,220	887,451	345,696
Total customers' deposits	24,557,565	22,368,371	18,782,384

Time deposits include deposits taken under non-interest-based contracts of SAR 8,326 million (31 December 2020: SAR 6,807 million and 30 June 2020: SAR 7,851 million).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
AT 30 JUNE 2021

9. DERIVATIVES AND FOREIGN EXCHANGE INSTRUMENTS

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

a) Swaps

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

b) Forwards

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

c) Options

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

Held for hedging purposes

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

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
AT 30 JUNE 2021

9. DERIVATIVES AND FOREIGN EXCHANGE INSTRUMENT (CONTINUED)

30 June 2021	(Unaudited) SAR' 000		
	Positive Value	Negative Value	Notional amount
Held for trading			
Commission rate swaps	196,695	(198,603)	10,008,350
Currency swaps	-	-	35
Futures and options	32,865	(48,984)	1,692,736
Forward foreign exchange	18	(18)	717,075
Held as fair value hedge	-	-	-
Commission rate swaps - loans	1,168	(29,718)	974,938
Commission rate swaps - deposits	182	(38)	1,221,386
	230,928	(277,361)	14,614,520

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

30 June 2020	(Unaudited) SAR' 000		
	Positive Value	Negative Value	Notional amount
Held for trading			
Commission rate swaps	278,643	(280,907)	9,009,661
Currency swaps	22	(22)	187,521
Futures and options	47,817	(47,861)	1,932,992
Forward foreign exchange	603	(1,825)	1,278,863
Held as fair value hedge			
Commission rate swaps - loans	-	(41,236)	716,110
Commission rate swaps - deposits	1,996	-	1,438,178
	329,081	(371,851)	14,563,325

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) AT 30 JUNE 2021

10. CONTINGENCIES AND COMMITMENTS

	30.06.21 (Unaudited) SAR' 000	31.12.20 (Audited) SAR' 000	30.06.20 (Unaudited) SAR' 000
Letters of credit	**1,691,649**	1,477,949	1,444,304
Letters of guarantee	**8,876,768**	8,226,631	8,410,267
Acceptances	**1,215,998**	1,130,887	672,898
Irrevocable commitments to extend credit	**1,482,146**	1,319,666	1,295,517
Total	**13,266,561**	12,155,133	11,822,986

As at 30 June 2021, there were no significant legal proceedings outstanding against the Group (31 December 2020: nil and 30 June 2020: nil).

11. CASH AND CASH EQUIVALENTS

	30.06.21 (Unaudited) SAR' 000	31.12.20 (Audited) SAR' 000	30.06.20 (Unaudited) SAR' 000
Cash and balances with SAMA (excluding statutory deposit)	**3,640,996**	7,826,927	6,499,343
Due from banks and other financial institutions with original maturities of three-month or less	**1,265,818**	1,237,286	1,644,436
	4,906,814	9,064,213	8,143,779

Cash and balances with SAMA includes statutory deposits of SAR 1,439 million (31.12.20 SAR 1,097.1 million and 30.06.20 SAR 1,199.8 million).

Due from banks and other financial institutions includes amounts having original maturities of more than three-month amounting to SAR 30.03 million (31.12.20 SAR 30.05 million and 30.06.20 SAR 30.02 million).

12. ZAKAT

Gulf International Bank - Saudi Arabia

The provision of Zakat liability is estimated based on the results of operations of the Bank. The Bank has accrued Zakat liability of SAR 10.97 million for the period ended 30 June 2021 (30 June 2020: SAR 1.6 million).

Status of assessments

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

GIB Capital Company

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

Status of assessments

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

13. SHARE CAPITAL AND EARNINGS PER SHARE

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

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Determination of fair value and fair value hierarchy

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

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

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

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

Carrying amounts and fair value

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation to fair value.

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

		SAR'000			
At 30 June 2021 (Unaudited)	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value:					
Investments held at FVTOCI	292,935	287,807	-	5,128	292,935
Investments held at FVTIS	215,547	215,547	-	-	215,547
Positive fair value of derivatives	230,928	-	230,928	-	230,928
Financial assets not measured at fair value:					
Investments at amortised cost	4,983,699	-	4,808,212	140,635	4,948,847
Loans and advances, net	21,426,138	-	-	21,549,740	21,549,740

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) AT 30 JUNE 2021

14. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

At 30 June 2020 (Unaudited)	Carrying value	Level 1	Level 2 (SAR'000)	Level 3	Total
Financial assets measured at fair value:					
Investments held at FVTOCI	339,708	333,829	-	5,879	339,708
Investments held at FVTIS	182,181	182,181	-	-	182,181
Positive fair value of derivatives	329,081	-	329,081	-	329,081
Financial assets not measured at fair value:					
Investments at amortised cost	2,312,763	-	2,298,341	99,910	2,398,251
Loans and advances, net	17,247,121	-	-	17,196,364	17,196,364

At 30 June 2021 (Unaudited)	**Carrying value**	**Level 1**	**Level 2 (SAR'000)**	**Level 3**	**Total**
Financial liabilities measured at fair value:					
Negative fair value of derivatives	**277,361**	**-**	**277,361**	**-**	**277,361**
Financial liabilities not measured at fair value:					
Customers' deposits	**24,557,565**	**-**	**-**	**24,414,025**	**24,414,025**

At 31 December 2020 (Audited)	Carrying value	Level 1	Level 2 (SAR'000)	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

At 30 June 2020 (Unaudited)	Carrying value	Level 1	Level 2 (SAR'000)	Level 3	Total
Financial liabilities measured at fair value:					
Negative fair value of derivatives	371,851	-	371851	-	371,851
Financial liabilities not measured at fair value:					
Customers' deposits	18,782,384	-	-	18,667,454	18,667,454

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) AT 30 JUNE 2021

15. CAPITAL ADEQUACY

The Group's objectives when managing capital are to comply with the capital requirements set by SAMA; to safeguard the Group's ability to continue as a going concern and maintain a strong capital base. Capital adequacy and the use of regulatory capital are monitored weekly by the Bank's management.

The Group monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Bank's eligible capital with its statement of financial position assets, commitments and notional amount of derivatives at a weighted amount to reflect their relative risk. SAMA requires holding the minimum level of the regulatory capital and maintaining a ratio of total regulatory capital to the risk-weighted assets ("RWA") at or above a minimum of 8%.

The total risk-weighted assets and total Tier I and II capital are as follows:

	30.06.21 (Unaudited) SAR' 000	31.12.20 (Audited) SAR' 000	30.06.20 (Unaudited) SAR' 000
Risk-weighted exposure			
Credit risk RWA	**29,755,357**	25,877,562	24,546,091
Operational risk RWA	**1,091,744**	951,591	951,591
Market risk RWA	**592,242**	527,183	459,873
Total Pillar-I RWA	**31,439,343**	27,356,336	25,957,555
Tier I capital	**7,083,675**	7,059,153	7,340,018
Tier II capital	**171,208**	184,737	204,752
Total Tier I & II Capital	**7,254,883**	7,243,890	7,544,770
Capital adequacy ratios			
Tier I ratio	**22.53%**	25.80%	28.28%
Tier I + Tier II ratio	**23.08%**	26.48%	29.07%

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

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

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

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

The Group also continues to evaluate the current situation through conducting stress-testing scenarios of expected movements in key macroeconomic indicators (e.g. oil prices, GDP etc.) and its impact on key credit, liquidity, operational and solvency ratios and performance indicators in addition to other risk management practices. The steps taken by management also includes a periodic review of credit exposure concentrations at a more granular level with particular focus on specific economic sectors, regions, counterparties and collateral protection thereby conducting timely review 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.

As the situation continues to be fluid, management considers certain effects cannot be fully incorporated into the ECL model calculations at this point in time. Accordingly, management's ECL estimation includes an assessment of staging analysis within the impacted portfolios based on the macroeconomic analysis and other factors. The Bank has therefore recognised overlays of SR 29.2 million as at 30 June 2021 (31 December 2020: SR 29.2 million). This includes consideration of the Micro, Small and Medium Enterprises portfolio referred to below. As with any estimates, the projections and likelihoods of occurrence are underpinned by significant judgement, and the Bank will continue to reassess as more reliable data becomes available, and accordingly determine adjustments to the ECL as appropriate in subsequent reporting periods.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) AT 30 JUNE 2021

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

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 the Micro Small and Medium Enterprises ("MSME") as per the definition issued by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H.'The PSFSP mainly encompasses the following programs:

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

As part of the deferred payments program launched by SAMA in March 2020 and with further extensions to the program subsequently announced, the Group deferred payments on lending facilities to MSME. The payment reliefs were considered as short-term liquidity support to address borrowers' potential cash flow shortages. The Group implemented the payment reliefs by deferring instalments falling due from 14 March 2020 to 30 June 2021 amounting to SAR 2.1 billion and extended the tenure of the applicable loans at no additional costs to the customer.

Further to the above, SAMA on 22 June 2021 announced the extension of the DPP for three additional months from 1 July 2021 to 30 September 2021, for MSMEs that are still affected by the COVID-19 precautionary measures. SAMA clarified that for this extension MSMEs will be subject to the assessment by the banks to the extent to which these MSMEs are still affected by the COVID-19 precautionary measures, in order to be qualified for the extension in accordance with the DPP guidelines issued by SAMA. The Group has performed an assessment to determine the pool of customers eligible for deferment and accordingly has deferred the installment falling due from 1 July 2021 to 30 September 2021 amounting to SAR 86.4 million and extended the tenure of the applicable loans at no additional costs to the customer. This resulted in the Group recognizing an additional modification loss of SAR 1.1 million.

The accounting impact of the above changes in terms of the credit facilities were assessed and treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in total modification losses amounting to SAR 6.1 million for the six-month period ended 30 June 2021 (30 June 2020: SAR 39.8 million).

During the six months period ended 30 June 2021, SAR 9.6 million (30 June 2020: SAR 6.9 million) has been recognized in the interim consolidated statement of income relating to unwinding of modification losses.

In order to compensate the related cost that the Group is expected to incur under the SAMA and other public authorities program, during the year 2020 and the six month period ended 30 June 2021, the Group received profit free deposits from SAMA amounting to SAR 906 million with varying maturities, which qualify as government grants. Management determined based on communication from SAMA that the government grant primarily relates to compensation for the modification loss incurred on the deferral of payments. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. Management has exercised certain judgements in the recognition and measurement of this grant income. By the end of the year 2020, total income of SAR 35.8 million had been recognised in the statement of income with the remaining amount deferred. Grant income amounting to SAR 0.5 million arose on the profit free deposit amounting to SAR 374 million received during the six-month period ended 30 June 2021. During the six months period ended 30 June 2021, a total of SAR 2.4 million (30 June 2020: SAR 23.6 million) has been recognised in the statement of income with respect to related deposits with an aggregate of SAR 15.5 million deferred grant income as at 30 June 2021 (30 June 2020: SAR 9.5 million).

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

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

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

In this regard, during 2020, the Group received a SAR 948.5 million profit free deposit with one-year maturity. Management has determined based on the communication received from SAMA that this government grant primarily relates to liquidity support. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in in the Group recognising total income of SAR 11.6 million, out of which SAR 4.9 million has been recognised in the interim consolidated statement of income during the period ended 30 June 2021 (30 June 2020: SAR 0.97 million). This deposit has been repaid during the quarter ended 30 June 2021.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) AT 30 JUNE 2021

17. COMPARATIVE FIGURES

Comparative figures have been reclassified to comply with the current period presentation, which are as follows:

	As previously Stated	Effects due to re-classification	**After reclassification**
Statement of financial position as at 31 December 2020 (Audited)			
Loans and advances, net	18,761,718	24,399	**18,786,117**
Other liabilities	(573,094)	(24,399)	**(597,493)**
Statement of financial position as at 30 June 2020 (Unaudited)			
Loans and advances, net	17,223,655	23,466	**17,247,121**
Government grants	-	(20,129)	**(20,129)**
Other liabilities	(516,766)	(3,337)	**(520,103)**
Statement of income for the three-month period ended 30 June 2020 (Unaudited):			
Expected credit losses on loans and advances	77,445	7,760	**85,205**
Expected credit losses reversals on other financial assets	-	(7,760)	**(7,760)**
Statement of income for the six-month period ended 30 June 2020 (Unaudited):			
Expected credit losses on loans and advances	177,542	(5,140)	**172,402**
Expected credit losses reversals on other financial assets	(11,017)	5,140	**(5,877)**

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

18. SUBSEQUENT EVENTS

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

19. APPROVAL OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were approved by the Board of Directors on 27 July 2021 (corresponding to 17 Dhu'l-Hijjah1442H).