



Gulf International Bank – Saudi Arabia

# CONDENSED INTERIM FINANCIAL STATEMENTS

For the period from 3<sup>rd</sup> April 2019 to 30<sup>th</sup> September 2019



**GIB**

**Table of contents****Independent auditors' review report to the shareholders**

As at 30 <sup>th</sup> September 2019 Interim statement of financial position .....	2
Interim statement of income .....	3
Interim statement of comprehensive income .....	4
For the period from 3 <sup>rd</sup> April to 30 <sup>th</sup> September 2019 Interim statement of changes in equity .....	5
Interim statement of cash flows .....	6
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS .....	7
1. Incorporation and registration .....	7
2. Significant accounting policies .....	8
3. Investments .....	17
4. Loans and advances .....	17
5. Customers' deposits .....	18
6. Derivatives and foreign exchange instruments .....	18
7. Credit-related financial instruments .....	19
8. Contingent liabilities .....	19
9. Cash and cash equivalents .....	20
10. Zakat .....	20
11. Fair value of financial instruments .....	20
12. Share capital and earnings per share .....	22
13. Capital adequacy .....	22
14. Related party transactions .....	23
15. Subsequent events .....	24
16. Approval of interim financial statements .....	24



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

### **Introduction**

We have reviewed the accompanying interim statement of financial position of Gulf International Bank – Saudi Arabia, a Saudi Closed Joint Stock Company (the “Bank”) as at 30 September 2019, and the related interim condensed statements of income and comprehensive income for the three months period ended 30 September 2019 and the period from 3 April 2019 to 30 September 2019, and the interim condensed statements of changes in equity and cash flows for the period from 3 April 2019 to 30 September 2019, and other explanatory notes (collectively referred to as “the interim condensed financial statements”). Management is responsible for the preparation and fair presentation of these interim condensed financial statements in accordance with International Accounting Standard 34, “Interim Financial Reporting” (“IAS 34”) as 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”, as 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 financial statements are not prepared, in all material respects in accordance with IAS 34 as 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 13 to the accompanying interim condensed financial statements. As part of our review, we compared the information in Note 13 to the relevant analysis prepared by the Bank for its submission to SAMA and found no material inconsistencies.

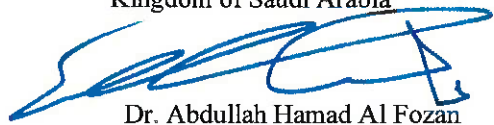
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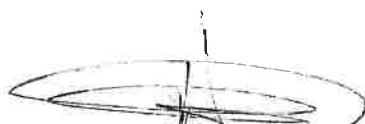
## Interim statement of financial position

	Notes	As at 30 <sup>th</sup> September 2019 (Unaudited) SAR'000
<b>ASSETS</b>		
Cash and balances with the Saudi Arabian Monetary Authority (SAMA)		7,090,235
Due from banks and other financial institutions		1,076,010
Investments, net	3	2,690,546
Positive fair value of derivative financial instruments	6	193,301
Loans and advances, net	4	16,441,636
Property and equipment, net		90,107
Intangible assets, net		36,768
Right-of-use assets		70,834
Other assets		163,056
<b>Total assets</b>		<b>27,852,493</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
Due to banks and other financial institutions		400,606
Customers' deposits	5	19,207,058
Negative fair value of derivative financial instruments	6	210,606
Lease liabilities		54,913
Other liabilities		477,423
<b>Total liabilities</b>		<b>20,350,606</b>
<b>Equity</b>		
Share capital		7,500,000
Fair value reserve		(34,458)
Retained earnings		36,345
<b>Total equity</b>		<b>7,501,887</b>
<b>Total liabilities and equity</b>		<b>27,852,493</b>

The condensed interim financial statements were approved by the Board of Directors on 13<sup>th</sup> October 2019 and signed on its behalf by: -



Abdullah Mohammed Al-Zamil  
Chairman



Abdulaziz A. Al-Helalssi  
Chief Executive Officer



Waleed Saud Al-Khathlan  
Head of Finance

The accompanying notes on pages 7 to 24 form an integral part of these condensed interim financial statements.

## Interim statement of income

For the period from 3<sup>rd</sup> April 2019 to 30<sup>th</sup> September 2019

	For the three-month period ended 30 September 2019 (Unaudited) SAR'000	For the period from 3 April 2019 to 30 September 2019 (Unaudited) SAR'000
Special commission income	266,381	532,413
Special commission expense	(130,925)	(269,095)
<b>Net special commission income</b>	<b>135,456</b>	<b>263,318</b>
Fee and commission income, net	20,522	37,464
Foreign exchange income, net	5,397	9,489
Dividend income	2,594	15,925
Loss on FVTPL investments, net	(11,714)	(12,830)
Gain on other FVTPL financial instruments, net	1,870	4,012
<b>Total income</b>	<b>154,125</b>	<b>317,378</b>
Salaries and employee-related expenses	(64,503)	(130,477)
Rent and premises-related expenses	(1,547)	(6,744)
Depreciation and amortisation	(20,313)	(36,066)
Other general and administrative expenses	(38,662)	(64,975)
Impairment charge for credit losses, net	(10,115)	(33,898)
Impairment charge for investments, net	-	(1,698)
Impairment reversal for other financial assets	5,114	5,953
<b>Total operating expenses</b>	<b>(130,026)</b>	<b>(267,905)</b>
<b>Net income before zakat</b>	<b>24,099</b>	<b>49,473</b>
Zakat charge for the period	(3,869)	(7,595)
<b>Net income</b>	<b>20,230</b>	<b>41,878</b>
Basic and diluted earnings per share for the period (SAR)	0.03	0.06

The accompanying notes on pages 7 to 24 form an integral part of these condensed interim financial statements.

## Interim statement of comprehensive income

For the period from 3<sup>rd</sup> April 2019 to 30<sup>th</sup> September 2019

	For the three-month period ended 30 September 2019 (Unaudited) SAR'000	For the period from 3 April 2019 to 30 September 2019 (Unaudited) SAR'000
Net income for the period	20,230	41,878
Other comprehensive loss:		
<i>Items that will not be reclassified to the statement of income in subsequent periods:-</i>		
- Net changes in fair value of equity investments classified as fair value through other comprehensive income (FVTOCI)	(25,246)	(39,991)
Other comprehensive loss	(25,246)	(39,991)
Total comprehensive (loss) / income for the period	(5,016)	1,887

The accompanying notes on pages 7 to 24 form an integral part of these condensed interim financial statements.

For the period from 3<sup>rd</sup> April to 30<sup>th</sup> September 2019 Interim statement of changes in equity

	Share capital (Unaudited) SAR'000	Fair value reserve (Unaudited) SAR'000	Retained earnings (Unaudited) SAR'000	Total equity (Unaudited) SAR'000
Share capital issuance on 3 <sup>rd</sup> April 2019	7,500,000	-	-	7,500,000
Net income for the period	-	-	41,878	41,878
Other comprehensive income for the period	-	(39,991)	-	(39,991)
Total comprehensive income for the period	-	(39,991)	41,878	1,887
Transfer from fair value reserve to retained earnings	-	5,533	(5,533)	-
At 30 <sup>th</sup> September 2019	<u>7,500,000</u>	<u>(34,458)</u>	<u>36,345</u>	<u>7,501,887</u>

The accompanying notes on pages 7 to 24 form an integral part of these condensed interim financial statements.

**Interim statement of cash flows**  
For the period from 3<sup>rd</sup> April 2019 to 30<sup>th</sup> September 2019

	Note	For the Period from 3 <sup>rd</sup> April 2019 to 30 <sup>th</sup> September 2019 (Unaudited) SAR'000
<b>OPERATING ACTIVITIES</b>		
Net income before zakat		49,473
<b>Adjustments to reconcile net income before zakat to net cash flow from operating activities:</b>		
Net accretion of discount on financial assets at amortized cost		(3,011)
Depreciation and amortization		36,066
Impairment charge for investments, net		1,698
Impairment charge for credit losses, net		33,898
Impairment reversal for other financial assets		(5,953)
Unrealized loss on investments at fair value through income statement		(8,818)
		<u>103,353</u>
<b>Net (increase) / decrease in operating assets:</b>		
Statutory deposit with SAMA		318,574
Positive fair value of derivative financial instruments		(95,404)
Right-of-use assets		(17,352)
Loans and advances		382,159
Other assets		(66,133)
<b>Net increase / (decrease) in operating liabilities:</b>		
Due to banks and other financial institutions		(83,439)
Negative fair value of derivatives		105,543
Customers' deposits		(736,620)
Lease liabilities		2,568
Other liabilities		72,267
		<u>(14,484)</u>
<b>Net cash outflow used in operating activities</b>		
<b>INVESTING ACTIVITIES</b>		
Purchase of investments at amortized cost		(109,774)
Proceeds from sale of FVTOCI investments		457,775
Purchase of property and equipment and intangible assets		29,211
		<u>377,212</u>
<b>Net cash inflow from investing activities</b>		
<b>Net increase in cash and cash equivalents</b>		
Cash and cash equivalents at the beginning of the period		6,854,447
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	9	<u>7,217,175</u>
Special commission received during the period		619,030
Special commission paid during the period		(380,682)
<b>Supplemental non-cash information</b>		
Net change in fair value of equity investments classified as fair value through other comprehensive income (FVTOCI)		(39,991)
Zakat		(7,595)
<b>Amounts transferred to share capital from:</b>		
Due to banks and other financial institutions		3,750,000
Customer's deposits		3,750,000

The accompanying notes on pages 7 to 24 form an integral part of these condensed interim financial statements.



**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
**At 30<sup>th</sup> September 2019**

**1. Incorporation and registration**

The activities of Gulf international Bank - Saudi Arabia (the Bank) were previously carried out as a foreign branch of Gulf International Bank B.S.C., a Bahraini shareholding company incorporated in the Kingdom of Bahrain by Amiri Decree Law No. 30 dated 24<sup>th</sup> November 1975 under the commercial registration number 466002. Effective from 27 Rajab 1440 (corresponding to 3<sup>rd</sup> 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<sup>th</sup> Jumada Al-Thani 1439H, corresponding to 14<sup>th</sup> March 2018, and SAMA approval number 391000082125 dated 23<sup>rd</sup> Rajab 1439H, corresponding to 31<sup>st</sup> March 2018.

Upon formation of the Saudi Closed Joint Stock Company, the net assets of the foreign branch of Gulf International Bank B.S.C - Kingdom of Bahrain were transferred to the Bank. The net assets transferred at 3<sup>rd</sup> April 2019 were as follows:

	<b>(Unaudited)</b> <b>SAR'000</b>
<b>ASSETS</b>	
Cash and balances with SAMA	6,408,271
Due from banks and other financial institutions	1,788,667
Investments, net	3,071,151
Positive fair value of derivative financial instruments	97,897
Loans and advances, net	18,854,170
Property and equipment, net	72,320
Intangible assets, net	46,447
Right-of-use assets	75,377
Other assets	93,373
<b>Total assets</b>	<b>28,507,673</b>
<b>LIABILITIES</b>	
Due to banks and other financial institutions	4,279,738
Customers' deposits	23,693,678
Negative fair value of derivative financial instruments	105,063
Lease liabilities	52,936
Other liabilities	376,258
<b>Total liabilities</b>	<b>28,507,673</b>
<b>Net assets</b>	<b>-</b>

Transfers of the above assets and liabilities were made in accordance with the Articles of Association of the Bank and the resolution of the Bank's shareholders.

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

The address of the registered office of the Bank is as follows:

Gulf International Bank - Saudi Arabia  
P. O. Box 39268  
Dhahran  
Kingdom of Saudi Arabia

The number of employees of the Bank at 30<sup>th</sup> September 2019 totalled 570, excluding outsourced resources.

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**At 30<sup>th</sup> September 2019**1. Incorporation and registration** (continued)**Dar Enjaz Gulf Real Estate Company**

The Bank formed a wholly-owned subsidiary, Dar Enjaz Gulf Real Estate Company (the Subsidiary), incorporated in the Kingdom of Saudi Arabia under Commercial Registration no.1010326338, issued in Riyadh. The Subsidiary was formed with the approval of SAMA for the purpose of dealing, managing and holding real estate on behalf of the Bank.

**GIB Opportunistic Saudi Equity Fund and GIB Saudi Equity Fund**

GIB Opportunistic Saudi Equity Fund and GIB Saudi Equity Fund are public funds domiciled in the Kingdom of Saudi Arabia and managed by GIB Capital, a subsidiary of Gulf International Bank B.S.C. The funds' investment objective is to generate returns by investing in equity instruments listed on Tadawul. As at 30<sup>th</sup> September 2019, the Bank owned 98.78% and 98.24% of the total units of GIB Opportunistic Saudi Equity Fund and GIB Saudi Equity Fund respectively.

The Bank neither consolidates the financial assets, liabilities and results of the Subsidiary, nor its investments in GIB Opportunistic Saudi Equity Fund and GIB Saudi Equity Fund in accordance with the exemption available in paragraph 4 of IFRS 10: Consolidated Financial Statements, and account for its investments in these entities at fair value through the income statement.

**2. Significant accounting policies**

The accounting policies, estimates and assumptions used in the preparation of these condensed interim financial statements are described as follows:

**2.1 Basis of preparation**

The condensed interim financial statements 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 issued by the Saudi Organisation for Certified Public Accountants ("SOCPA").

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

The Bank presents interim statement of financial position in the order of liquidity.

Financial assets and financial liabilities are offset and the net amount reported in the interim statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses are not offset in the interim statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

On 17<sup>th</sup> July 2019, SAMA instructed the banks in the Kingdom of Saudi Arabia to account for the zakat and income taxes in the statement of income. This aligns with the IFRS and its interpretations as issued by the International Accounting Standards Board ("IASB") that are endorsed in the Kingdom of Saudi Arabia and with the other standards and pronouncements that are endorsed by the Saudi Organisation for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRS as endorsed in KSA").

These condensed interim financial statements do not include all information and disclosures required in the annual financial statements.

These condensed interim financial statements are expressed in Saudi Arabian Riyals (SAR) and are rounded to the nearest thousand.

**2.2 Period of financial statements**

According to Clause 46 of the Bank's Articles of Association, the Bank's fiscal year begins on 1<sup>st</sup> January and ends on 31<sup>st</sup> December of each Gregorian year, and the first fiscal year starts from the date of commercial registration on 3<sup>rd</sup> April 2019 to 31<sup>st</sup> December 2019. These condensed interim financial statements have been prepared for the period from 3<sup>rd</sup> April 2019 to 30<sup>th</sup> September 2019.

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**At 30<sup>th</sup> September 2019**2. Significant accounting policies** (continued)**2.3 Foreign currencies**

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the spot exchange rates prevailing at the transaction date. Monetary assets and liabilities at the reporting date, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the reporting date.

Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognized in the interim statement of income.

Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment in the interim statement of income following the recording of fair value changes of the underlying financial asset.

**2.4 Financial assets and liabilities**

Financial assets and liabilities comprise all assets and liabilities reflected in the interim statement of financial position, although excluding employee benefit plans and property and equipment.

**a) Recognition and measurement**

The Bank recognises financial assets and liabilities in the interim statement of financial position when, and only when, the Bank becomes party to the contractual provisions of the instrument.

Financial instruments are classified at inception into one of the following categories, which then determine the subsequent measurement methodology:-

Financial assets are classified into one of the following three categories:-

- financial assets at amortised cost;
- financial assets at fair value through other comprehensive income (FVTOCI); or
- financial assets at fair value through the profit or loss (FVTIS).

Financial liabilities are classified into one of the following two categories:-

- financial liabilities at amortised cost; or
- financial liabilities at fair value through the profit or loss (FVTIS).

Financial assets are initially recognised at fair value including transaction costs attributable to the financial asset, with the exception of trade receivables which are recognised at fair value. Financial liabilities are initially recognised at fair value, representing the proceeds received net of premiums, discounts and transaction costs that are directly attributable to the financial liability.

All regular way purchases and sales of financial assets and liabilities classified as FVTIS are recognised on the trade date, i.e. the date on which the Bank commits to purchase or sell the financial asset or liability. All regular way purchases and sales of other financial assets and liabilities are recognised on the settlement date, i.e. the date on which the asset or liability is received from or delivered to the counterparty. Regular way purchases or sales are purchases or sales of financial assets that require delivery within the time frame generally established by regulation or convention in the market place.

Subsequent to initial measurement, financial assets and liabilities are measured at either amortised cost or fair value. The classification and the basis for measurement are subject to the Bank's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, as detailed below:-

*Financial assets at amortised cost*

Financial assets are measured at amortised cost using the effective interest rate method if:-

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If the first criteria is not met, the financial assets are classified and measured at fair value through other comprehensive income (FVTOCI). If both criteria are not met, the financial assets are classified and measured at fair value through the profit or loss (FVTIS).

Additionally, even if a financial asset meets the amortised cost criteria, the Bank may choose to designate the financial asset at FVTIS. Such an election is irrevocable and applicable only if the FVTIS classification significantly reduces a measurement or recognition inconsistency.

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**At 30<sup>th</sup> September 2019**2. Significant accounting policies** (continued)**2.4 Financial assets and liabilities** (continued)**a) Recognition and measurement** (continued)*Financial assets at fair value through other comprehensive income (FVTOCI)*

At initial recognition, the Bank can make an irrevocable election to classify an equity investment that is not held for trading as FVTOCI.

For this purpose, a financial asset is deemed to be held for trading if the equity investment meets any of the following conditions:-

- it has been acquired principally for the purpose of selling in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profitability; or
- it is a derivative and not designated and effective as a hedging instrument or a financial guarantee.

The irrevocable election is on an instrument-by-instrument basis. If an equity investment is designated as FVTOCI, all gains and losses, except for dividend income, are recognised in other comprehensive income and are not subsequently included in the interim statement of income.

*Financial assets at fair value through the profit or loss (FVTIS)*

Financial assets not otherwise classified above are classified and measured as FVTIS.

*Financial liabilities at amortised cost*

All financial liabilities, other than those classified as financial liabilities at FVTIS, are classified as financial liabilities at amortised cost and are measured at amortised cost using the effective interest rate method.

*Financial liabilities at fair value through the profit or loss*

Financial liabilities not otherwise classified above are classified as financial liabilities at FVTIS. This classification includes derivatives that are liabilities measured at fair value.

**b) Modification of assets and 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, the original financial asset is derecognised and a new financial asset is recognised at either amortised cost or fair value. If the cash flows are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the interim statement of income.

*Financial liabilities*

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at either amortised cost or fair value. The difference between the carrying amount of the financial liability derecognised and the new financial liability with modified terms is recognised in the interim statement of income.

**2.5 Impairment of financial assets**

Impairment allowances for expected credit losses (ECL) are recognised for financial instruments that are not measured at FVTIS. No impairment loss is recognised on equity investments.

An ECL provision is made at an amount equal to the lifetime ECL, except for the following, for which they are measured as a 12-month ECL:-

- debt investment securities that are determined to have a low credit risk (equivalent to investment grade rating) at the reporting date; and
- other financial instruments for which the credit risk has not increased significantly since their initial recognition.

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**At 30<sup>th</sup> September 2019**2. Significant accounting policies** (continued)**2.5 Impairment of financial assets** (continued)

The Bank classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below:-

- Stage 1: for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Bank recognises an allowance based on the 12-month ECL.
- Stage 2: for financial instruments where there has been a significant increase in credit risk since initial recognition but that are not credit-impaired, the Bank recognises an allowance for the lifetime ECL.
- Stage 3: for credit-impaired financial instruments, the Bank recognises the lifetime ECL.

12-month ECL (stage 1) is the portion of ECL that results from probable default events on a financial instrument within 12 months after the reporting date.

Lifetime ECL (stage 2) is a probability-weighted estimate of credit losses and is determined based on the difference between the present value of all cash shortfalls. The cash shortfall is the difference between all contractual cash flows that are due to the Bank and the present value of the recoverable amount, for financial assets that are not credit-impaired at the reporting date.

For stage 3 financial instruments, the provisions for credit-impairment are determined based on the difference between the net carrying amount and the recoverable amount of the financial asset. The recoverable amount is measured as the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate at the inception of the credit facility or, for debt instruments, at the current market rate of interest for a similar financial asset.

Provisions for credit-impairment are recognised in the interim statement of income and are reflected in an allowance account against loans and advances, investment securities, and placements.

Financial assets are written off after all restructuring and collection activities have taken place and there is no realistic prospect of recovery. Subsequent recoveries are included in other income.

Financial assets that are measured at amortised cost are tested as to whether they are credit-impaired. Objective evidence that a financial asset is credit-impaired may include a breach of contract, such as default or delinquency in interest or principal payments, the granting of a concession that, for economic or legal reasons relating to the borrower's financial difficulties, would not otherwise be considered, indications that it is probable that the borrower will enter bankruptcy or other financial reorganisation, the disappearance of an active market, or other observable data relating to a Bank of assets such as adverse changes in the payment status of borrowers or issuers in the Bank, or economic conditions that correlate with defaults in the Bank.

Financial assets which have been renegotiated or modified are no longer considered to be past due and are replaced on performing status when all principal and interest payments are up to date and future payments are reasonably assured. Financial assets subject to individual impairment assessment and whose terms have been renegotiated, are subject to on-going review to determine whether they remain impaired or should be considered past due. All renegotiated or modified facilities are classified as stage 2 or stage 3 for a minimum period of 12 months from the date of renegotiation. The ECL on renegotiated financial instruments is measured based on whether the terms of renegotiation resulted in the derecognition of an existing asset.

**2.6 Offsetting financial assets and liabilities**

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

**2.7 Rendering of services**

The Bank provides various services to its customers. These services are either rendered separately or combined with rendering of other services.

The Bank has concluded that revenue from rendering of various services related to trade finance, corporate finance and other banking services, should be recognized at the point when services are rendered i.e. when performance obligation is satisfied. Whereas for free services related to credit cards, the Bank recognises revenue over the relevant period of the services provided.

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

### At 30<sup>th</sup> September 2019

#### 2. Significant accounting policies (continued)

##### 2.8 Derivative financial instruments and hedge accounting

Derivative financial instruments are contracts, the value of which is derived from one or more underlying financial instruments or indices, and include futures, forwards, swaps and options in the interest rate, foreign exchange, equity and credit markets.

Derivative financial instruments are recognised in the interim statement of financial position at fair value. Fair values are derived from prevailing market prices, discounted cash flow models or option pricing models as appropriate.

In the interim statement of financial position, derivative financial instruments with positive fair values (unrealised gains) are included in other assets and derivative financial instruments with negative fair values (unrealised losses) are included in other liabilities.

The changes in the fair values of derivative financial instruments entered into for trading purposes or to hedge other trading positions are included in trading income.

The recognition of changes in the fair values of derivative financial instruments entered into for hedging purposes is determined by the nature of the hedging relationship. For the purposes of hedge accounting, derivative financial instruments are designated as a hedge of either: (i) the fair value of a recognised asset or liability (fair value hedge), or (ii) the future cash flows attributable to a recognised asset or liability or a firm commitment (cash flow hedge).

The Bank's criteria for a derivative financial instrument to be accounted for as a hedge include:-

- the hedging instrument, the related hedged item, the nature of the risk being hedged, and the risk management objective and strategy must be formally documented at the inception of the hedge,
- it must be clearly demonstrated that the hedge is expected to be highly effective in offsetting the changes in fair values or cash flows attributable to the hedged risk in the hedged item, including how the Bank will address the hedge ratio,
- the effectiveness of the hedge must be capable of being reliably measured, and
- there is an economic relationship between the hedging instrument and the hedged item and the effect of credit risk does not dominate the fair value changes of that relationship.

Changes in the fair values of derivative financial instruments that are designated, and qualify, as fair value hedges and that prove to be highly effective in relation to the hedged risk, are included in trading income together with the corresponding change in the fair value of the hedged asset or liability that is attributable to the risk that is being hedged. Unrealised gains and losses arising on hedged assets or liabilities which are attributable to the hedged risk are adjusted against the carrying amounts of the hedged assets or liabilities in the interim statement of financial position. If the hedge no longer meets the criteria for hedge accounting, any adjustment to the carrying amount of a hedged interest-bearing financial instrument is amortised to income over the remaining period to maturity.

Changes in the fair values of derivative financial instruments that are designated, and qualify, as cash flow hedges and that prove to be highly effective in relation to the hedged risk, are recognised in other comprehensive income. Unrealised gains or losses recognised in other comprehensive income are transferred to the interim statement of income at the same time that the income or expense of the corresponding hedged item is recognised in the interim statement of income and are included in the same income or expense category as the hedged item. Unrealised gains or losses on any ineffective portion of cash flow hedging transactions are included in trading income.

The interest component of derivatives that are designated, and qualify, as fair value or cash flow hedges is included in interest income or interest expense relating to the hedged item over the life of the derivative instrument.

Hedge accounting is discontinued when the derivative hedging instrument either expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Gains and losses arising on the termination of derivatives designated as cash flow hedges are recognised in interest income or interest expense over the original tenor of the terminated hedge transaction.

Some hybrid instruments contain both a derivative and non-derivative component. In such cases, the derivative is categorised as an embedded derivative. Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met. Where it is not practically possible to separate the embedded derivative, the entire hybrid instrument is categorised as a financial asset at FVTIS and measured at fair value. Changes in fair value are included in trading income.

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**At 30<sup>th</sup> September 2019**2. Significant accounting policies (continued)****2.9 Off-setting financial instruments**

Financial assets and liabilities are offset and are reported net in the interim statement of financial position when there is a legally current enforceable right to set off the recognized amounts and when the Bank intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

**2.10 Zakat**

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

**2.11 Revenue recognition**

*Special commission income and expense:*

Special commission income and expense for all special commission-bearing financial instruments, except for those classified as held for trading or designated at fair value through the income statement, are recognized in the interim statement of income using the effective yield basis.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of receipts or payments. The adjusted carrying amount is calculated based on the original effective commission rate and the change in carrying amount is recorded as special commission income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, special commission income continues to be recognized using the original effective commission rate applied to the new carrying amount.

The calculation of the effective commission rate includes all the contractual terms and conditions of the financial instruments and includes all fees paid or received, transaction costs, and discounts or premiums. All these are an integral part of the effective commission rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

**2.12 Foreign exchange income / loss**

Foreign exchange income / loss is recognized when earned / incurred.

**2.13 Fee and commission income**

Fee and commission income that are not an integral part of the effective yield calculation on a financial asset or liability are recognized when the related service is provided as follows:

- When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.
- Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

**2.14 Net trading gain / loss**

Gains and losses arising from trading activities, if any, include all realized and unrealized gains and losses from changes in fair value and related special commission income or expense for financial assets and financial liabilities held for trading. This includes any ineffectiveness recorded in hedging transactions.

**2.15 Dividend income**

Dividend from equity instruments classified as FVTOCI are recognized when earned and are included in dividend income in the interim statement of income.



**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**At 30<sup>th</sup> September 2019**2. Significant accounting policies (continued)****2.16 Sale and repurchase agreements**

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the interim statement of financial position, as the Bank retains substantially all the risks and rewards of ownership.

When substantially all the risks and rewards of ownership remain with the Bank, these assets continue to be measured in accordance with the related accounting policies for investments held as fair value through statement of income (FVTIS), available-for-sale, held to maturity and other investments held at amortized cost. The transactions are treated as collateralized borrowing and the counterparty liability for amounts received under these agreements is included in "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 yield basis.

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognized in the interim statement of financial position, as the Bank does not have control over these assets. Amounts paid under these agreements are included in cash and balances with SAMA, due from banks and other financial institutions or loans and advances, as appropriate.

The difference between purchase and resale price is treated as special commission income and accrued over the life of the reverse repo agreement on an effective yield basis.

**2.17 Settlement date accounting**

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

**2.18 Fair value measurement**

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data is 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 interim financial statements are categorized 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.

The Bank measures financial instruments, at fair value at each balance sheet date. Fair values of financial instruments measured at amortized cost are disclosed in Note 11.



**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
**At 30<sup>th</sup> September 2019**

**2. Significant accounting policies** (continued)

**2.19 Collateral valuation**

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit / guarantees, real estate, assignment of receivables, inventories or other non-financial assets. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Bank's quarterly reporting schedule. To the extent possible, the Bank uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using modules. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, housing price indices, audited financial statements, and other independent sources.

**Collateral repossessed**

The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold.

Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in line with the Bank's policy.

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

**2.20 Property, equipment and intangible assets**

Property, equipment and intangible assets are measured at cost less accumulated depreciation. The cost of property and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets as follows:

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

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

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

All assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be fully 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.

**2.21 Leases**

**Right-of-use assets and lease liabilities**

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

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**At 30<sup>th</sup> September 2019**2. Significant accounting policies** (continued)**2.21. Leases** (continued)**Right-of-use assets**

The Bank applies the model, and measures the right-of-use assets at cost:

- less any accumulated depreciation and any accumulated impairment losses; and
- adjusted for any re-measurement of the lease liability for lease modifications.

**Lease liabilities**

On initial recognition, the lease liability is measured as the present value of all remaining payments to the lessor.

After the commencement date, the Bank measures the lease liability by:

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made; and
- re-measuring the carrying amount to reflect any re-assessment or lease modification.

**2.22 Provisions**

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

**2.23 Cash and cash equivalents**

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

**2.24 Statutory reserve**

In accordance with the Banking Control Law of the Kingdom of Saudi Arabia, a minimum of 25% of the annual net income for the year is required to be transferred to a statutory reserve until this reserve equals to the paid-up capital of the Bank.

**2.25 Employees' end of service benefits**

The Company 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 interim statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets at that date. The defined benefit obligation is calculated by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting estimated future cash outflows using market yields at the end of the reporting period of high quality corporate bonds that have terms to maturity approximating to the estimated term of the post-employment benefit obligations. Actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments are recognised in equity through the statement of profit or loss and other comprehensive income in the period in which they arise.

**2.26 Non-commission-based banking products**

In addition to the conventional banking, the Bank offers its customers certain non-commission based banking products, which are approved by its Shariah Board. High level definitions of the non-commission-based products are as follows:

**Murabaha**

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

**Tawaruq**

Tawaruq is a form of Murabaha transaction where the Bank purchases a commodity and sells it to the customer. The customer sells the underlying commodity at spot and uses the proceeds for his financing requirements.

All non-commission based banking products are included in loans and advances, and are in conformity with the accounting policies described in these interim financial statements.

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

At 30<sup>th</sup> September 20192. Significant accounting policies (continued)

## 2.27 Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the interim financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to the initial recognition, the Bank's liability under each guarantee is measured at the higher of the unamortized premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees. Any increase in the liability relating to the financial guarantee is taken to the interim statement of income in "impairment charge for credit losses, net". The premium received is recognized in the interim statement of income in "fees and commission income, net" on a straight-line basis over the life of the guarantee.

3. Investments

Investment securities are classified as follows:

	30 <sup>th</sup> September 2019 (Unaudited) SAR'000
Investments at amortized cost, net	2,350,227
Investments in equity securities at FVTOCI	103,478
Investments at FVTIS	240,854
Less: Expected credit losses for investments at amortized cost	(4,013)
<b>Total</b>	<b>2,690,546</b>

At 3<sup>rd</sup> April 2019, the Bank designated certain equity investments shown in the table above as equity securities at FVTOCI. The FVTOCI designation was made on the basis that the investments are expected to be held for the long-term for strategic purposes.

4. Loans and advances30<sup>th</sup> September 2019 (Unaudited)  
SAR'000

	Overdrafts	Commercial loans	Retail loans	Total
Performing loans and advances	565,538	15,077,320	440,355	16,083,213
Non-performing loans and advances	-	2,073,622	2,505	2,076,127
<b>Gross loans and advances</b>	<b>565,538</b>	<b>17,150,942</b>	<b>442,860</b>	<b>18,159,340</b>
Provisions for impairment	(102)	(1,710,347)	(7,255)	(1,717,704)
<b>Loans and advances, net</b>	<b>565,436</b>	<b>15,440,595</b>	<b>435,605</b>	<b>16,441,636</b>

Performing loans and advances include SAR 497,452 thousand that are delinquent but not impaired.

The movements in the provisions for impairment were as follows:

	(Unaudited) SAR'000
<b>At 3<sup>rd</sup> April 19</b>	1,690,709
Amounts utilised	(6,903)
Net remeasurement of loss allowance	33,898
<b>At 30<sup>th</sup> September 19</b>	<b>1,717,704</b>

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS  
At 30<sup>th</sup> September 2019

5. Customers' deposits

	30 <sup>th</sup> September 2019 (Unaudited) SAR'000
Demand deposits	4,686,308
Saving accounts	174,219
Time deposits	14,039,685
Others	306,846
<b>Total customers' deposits</b>	<b>19,207,058</b>

Time deposits include deposits taken under non-interest-based contracts of SAR 12,504,048 thousand.

6. Derivatives and foreign exchange instruments

The Bank utilise 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 customized 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 trading purposes**

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

**Held for hedging purposes**

The Bank has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Bank's 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 the 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 use 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.

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
At 30<sup>th</sup> September 2019

**6. Derivatives and foreign exchange instruments (continued)**

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 summarizes 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.

Derivatives and foreign exchange instruments	Notional amount	30 <sup>th</sup> September 2019 (Unaudited) SAR'000	
		Positive fair value	Negative fair value
<b>- Held for trading</b>			
Commission rate swap	9,266,208	104,023	(99,755)
Currency swap	245,521	484	-
Commission rate futures and options	2,547,210	83,954	(89,011)
Forward foreign exchange contracts	1,549,955	2,302	(1,976)
<b>- Held as fair value hedge</b>			
Commission rate swaps - loans	742,806	14	(19,103)
Commission rate swaps - deposits	4,538,193	2,524	(761)
<b>Total</b>	<b>18,889,893</b>	<b>193,301</b>	<b>210,606</b>

**7. Credit-related financial instruments**

	30 <sup>th</sup> September 2019 (Unaudited) SAR'000
Letters of credit	969,668
Letters of guarantee	8,181,124
Acceptances	505,663
Irrevocable commitments to extend credit	1,250,902
<b>Total</b>	<b>10,907,357</b>

**8. Contingent liabilities**

As at 30<sup>th</sup> September 2019, there were no significant legal proceedings outstanding against the Bank.

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
**At 30<sup>th</sup> September 2019**

**9. Cash and cash equivalents**

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

	<b>30<sup>th</sup> September 2019 (Unaudited) SAR'000</b>
Cash and balances with SAMA (excluding statutory deposit)	6,171,184
Due from banks and other financial institutions with original maturities of three months or less	1,045,991
<b>Total</b>	<b>7,217,175</b>

**10. Zakat**

On 14<sup>th</sup> March 2019, the General Authority of Zakat and Tax (the "GAZT") has issued new zakat rules through Ministerial Decree No. 2215 which provides the basis for the calculation of Zakat for companies engaged in financing activities and licensed by SAMA. The new Zakat regulations are issued pursuant to the Zakat Implementing Regulations and are applicable for the periods from 1<sup>st</sup> January 2019.

The provision of Zakat liability is estimated based on the results of operations of the Bank for the period ended and the financial position at 30<sup>th</sup> September 2019. The Bank has accrued zakat liability of SAR 7,595 thousand for the period ended 30<sup>th</sup> September 2019.

**11. 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 recognized in the interim financial statements on a recurring basis, the Bank determine whether transfers have occurred between levels in the hierarchy by re-assessing the categorization (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 Bank have 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 Bank 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.

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

At 30<sup>th</sup> September 2019

## 11. Fair value of financial instruments (continued)

## 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.

SAR'000	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
<b>At 30<sup>th</sup> September 2019 (Unaudited)</b>					
<b>Financial assets measured at fair value</b>					
Investments at FVTOCI	103,478	94,761	-	8,717	103,478
Investments in equity securities at FVTPL	240,854	191,715	-	49,139	240,854
Positive fair value of derivative financial instruments	193,301	-	193,301	-	193,301
<b>Financial assets not measured at fair value</b>					
Investments at amortized cost	2,346,214	-	147,837	2,257,159	2,404,996
Loans and advances, net	16,441,636	-	-	16,389,264	16,389,264
Cash and balance with SAMA	7,090,235	-	-	7,090,235	7,090,235
Due from banks and other financial institutions	1,0761,010	-	-	1,0761,010	1,0761,010
Other financial assets	99,407	-	-	99,407	99,407

The fair value of non-current financial assets not measured at fair value are estimated by using a discounted cash flow model that incorporates assumptions for various risk factors.

SAR'000	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
<b>At 30<sup>th</sup> September 2019 (Unaudited)</b>					
<b>Financial liabilities measured at fair value</b>					
Negative fair value of derivative financial instruments	210,606	-	210,606	-	210,606
<b>Financial liabilities not measured at fair value</b>					
Customers' deposits	19,207,058	-	18,691,489	-	18,691,489
Due to banks and other financial institutions	357,657	-	-	357,657	357,657
Other financial liabilities	171,327	-	-	171,327	171,327

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
**At 30<sup>th</sup> September 2019**

**11. Fair value of financial instruments (continued)**

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 Bank'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. The movement in Level 3 financial instruments during the period relates to fair value and capital repayment movement only. Loans and advances are classified as Level 3, the fair value of which is determined by discounting future cash flows using risk adjusted expected SIBOR rates. The fair values of due from and due to banks and other financial institutions which are carried at amortized cost, are not significantly different from the carrying values included in the condensed interim financial statements, since these are short dated and the current market special commission rates for similar financial instruments are not significantly different from the contracted rates. The fair value of the remaining portfolio is not significantly different from its carrying value. There were no transfers between the levels of fair value hierarchies during the period.

**12. Share capital and earnings per share**

The authorised, issued and fully paid share capital at 30<sup>th</sup> September 2019 comprised 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<sup>th</sup> September 2019 is calculated on a weighted average basis by dividing the net income for the period by 750 million shares.

**13. Capital adequacy**

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

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

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

	<b>30<sup>th</sup> September 2019</b> <b>(Unaudited)</b> <b>SAR'000</b>
<b>Risk-weighted exposure</b>	
Credit risk	24,229,581
Operational risk	761,032
Market risk	518,855
<b>Total risk-weighted exposure</b>	<b>25,509,468</b>
<b>Regulatory capital base</b>	
Tier I capital	7,501,887
Tier II capital	178,895
<b>Total regulatory capital base</b>	<b>7,680,782</b>
<b>Capital adequacy ratios</b>	
Tier I ratio	29.41%
Total ratio	30.11%



## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

At 30<sup>th</sup> September 2019**14. Related party transactions**

In the ordinary course of its activities, the Bank transacts business with related parties, these transactions are conducted in the ordinary course of the Bank's business on terms comparable to those with non-related entities.

14.1 Balances pertaining to related parties included in the interim statement of financial position are as follows:

	<b>30<sup>th</sup> September 2019 (Unaudited) SAR'000</b>
<b>Gulf International Bank B.S.C. - Shareholder</b>	
Due from banks and other financial institutions	91,555
Due to banks and other financial institutions	66,979
Commitments and contingencies	753,393
<b>GIB Capital, KSA</b>	
Due to banks and other financial institutions	182,902
Other assets	55,245
Customers' deposits	148,576
Commitments and contingencies	25,996
<b>GIB Capital Saudi Equity Managed Fund</b>	
Investments	133,823
<b>GIB Opportunistic Saudi Equity Fund</b>	
Investments	29,918
<b>GIB Saudi Equity Fund</b>	
Investments	27,975
<b>Public Investment Fund (PIF) - Shareholder</b>	
Customers' deposits	341,251
<b>GIB (UK) Ltd.</b>	
Customers of GIBUK have deposited these amounts with the Bank as customers' deposits	1,005,870

14.2 Income and expenses pertaining to transactions with related parties included in the interim statement of income are as follows:

	<b>For the period from 3 April 2019 to 30 September 2019 (Unaudited) SAR'000</b>
<b>Gulf International Bank B.S.C. - Shareholder</b>	
Special commission income	4,494
Fee income	7
Special commission expense	5,360
<b>GIB Capital, KSA</b>	
Special commission expense	3,088
<b>Public Investment Fund (PIF) - Shareholder</b>	
Special commission expense	8,187
<b>GIB (UK) Ltd.</b>	
Special commission expense accrued to customers of GIB UK	15,452

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**At 30<sup>th</sup> September 2019**14. Related party transactions** (continued)

14.3 The total amount of compensation paid to key management personnel during the period is as follows:

	<b>For the period from 3 April 2019 to 30 September 2019 (Unaudited) SAR'000</b>
Short-term employee benefits	4,482
Post-employment benefits	426
	<b>4,908</b>

**15. Subsequent events**

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread globally, to including the Kingdom of Saudi Arabia (KSA), causing disruptions to businesses and economic activity, and may eventually impact the repayment capacity of the Bank's customers. However, the Government of Saudi Arabia through SAMA, has announced several initiatives to provide necessary relief to the financial services sector including underlying consumers. The Bank considers this outbreak to be a non-adjusting post balance sheet event. As the situation is fluid and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Bank. The impact of this outbreak on the Bank's financial statements, including expected credit losses, will be considered in the Bank's financial statements for the year ending 31 December 2020.

On 1 January 2021, the Bank acquired 100% of the issued shares in GIB Capital Company- A Saudi Closed Joint Stock Company, dealing as a principal and agent, underwriting, managing, arranging, advising and acting as custodian of financial securities, for a consideration of SAR 256.7 million. Due to this acquisition the Bank will be in a position to enter into business of financial securities business and reduce cost through economies of scale. The related legal formalities have been completed.

Except above, there were no other significant events between the date of interim condensed financial statements authorization and date of interim condensed statement of financial statements which requires adjustments / disclosure in these interim condensed financial statements.

**16. Approval of interim financial statements**

These condensed interim financial statements were approved by the Board of Directors on 13<sup>th</sup> October 2019 (corresponding to 14<sup>th</sup> Safar 1441H).