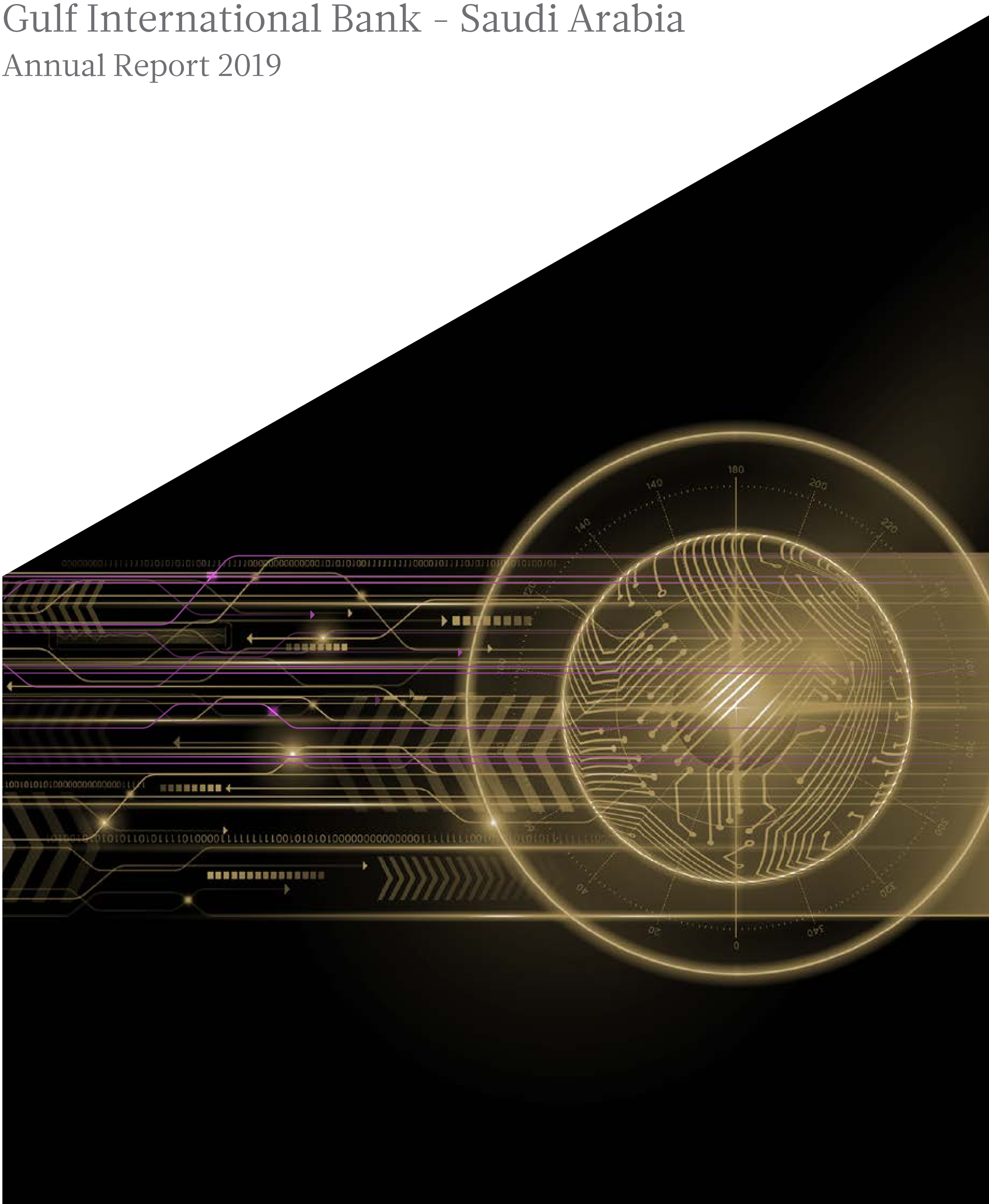
بنك الخليج الدولي

Gulf International Bank - Saudi Arabia

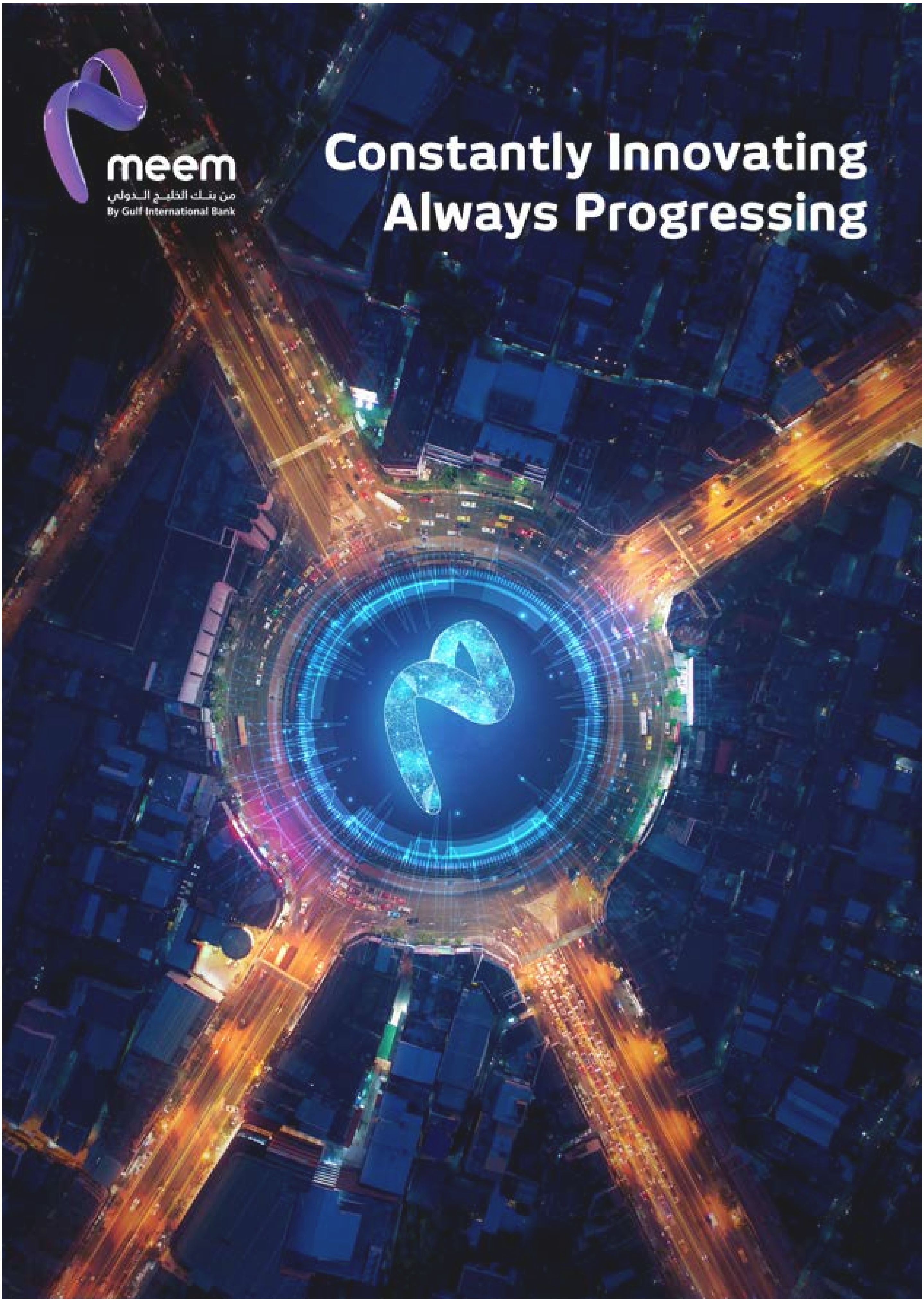
Annual Report 2019



www.gib.com

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

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


meem
من بنك الخليج الدولي
By Gulf International Bank
Constantly Innovating
Always Progressing

Contents

GIB
بنك الخليج الدولي

Gulf International Bank - Saudi Arabia

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

In 1999 GIB began operating in Saudi Arabia as a foreign bank, providing wholesale and investment banking services through branches in Dhahran, Riyadh, and Jeddah. In April 2019 GIB became the first foreign domiciled bank to establish a local commercial bank in the Kingdom with the conversion of the Bank's existing branches into Gulf International Bank - Saudi Arabia (GIB Saudi Arabia). This followed the Saudi Council of Ministers approval, in May 2017, to grant the Bank a local commercial banking license and the constituent shareholder's meeting to appoint the Board of Directors in February 2019.

GIB Saudi Arabia is owned equally by the Saudi Public Investment Fund and Gulf International Bank BSC, with a paid-up capital of SR 7.5 billion and is the first bank to be headquartered in the Eastern Province.

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

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

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

Board of Directors

Eng. Abdulla bin Mohammed Al Zamil
Chairman

Dr. Abdullah bin Hassan Alabdulgader
Vice Chairman

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

Mr. Sultan bin Abdul Malik Al-Sheikh
Director

Mr. Rajeev Kakar
Director

Eng. Muhannad bin Kusai bin Hasan Al Azzawi
Director

Dr. Najem bin Abdulla Al Zaid
Director

Mrs. Anju Patwardhan
Director

Mr. Riyad bin Mustafa Al-Dughaither
Director

Mr. Bander bin Abdulrahman bin Mogren
Director

Financial Highlights

	2019
Earnings (SAR millions)	
Net income after zakat	7.0
Net special commission income	399.6
Net fee and commission income	58.2
Operating expenses before impairment charge	380.6
Financial position (SAR millions)	
Total assets	30,626.8
Loans and advances	17,490.4
Investment	2,773.7
Customer Deposits	21,716.8
Total equity	7,506.9
Ratios (per cent)	
Profitability	
Return on equity	0.09
Return on assets	0.02
Capital	
Capital adequacy ratio	
- Tier 1	29.32
- Total	29.83
Equity as % of total assets	24.51
Asset quality	
Investments as % of total assets	9.1
Loans and advances as % of total assets	57.1

Chairman's statement

Abdulla Mohammed Al Zamil
Chairman of the Board

"In April we celebrated the formal conversion of our Saudi operations and branches into a locally registered bank. In doing so we became the first foreign domiciled bank to establish a local commercial bank in the Kingdom."

On behalf of the Board of Directors, it is my pleasure to present the first annual report and financial statements of Gulf International Bank – Saudi Arabia. Whilst this marks our first year as a Saudi Arabian bank, our branches and people have been here for the last 20 years proudly serving our Saudi Arabian customers.

The Environment

Despite the uncertainty of the global economic environment and the increased volatility of oil price in response to the trade war and other geopolitical tensions GIB Saudi Arabia has had a year of steady growth and building foundations for the future.

Whilst these adverse conditions also affected the non-oil segments the broad trend of reform and liberalisation, led by Vision 2030, continued apace: inclusion of domestic stock markets into global equity indexes; growing access to capital markets; expansion of the digital and fintech ecosystems; and most notably, the successful launch of the Saudi Aramco initial public offering (IPO) are a few examples.

Indeed, towards the end of 2019, signs of stabilisation had emerged and raised hopes of a recovery in 2020. The optimism was further buoyed by monetary policy easing and an improvement in trade relations between the United States and China. However, the momentum has not been sustainable, and it is too early to assess the long term impact of the coronavirus outbreak on the regional and global economy.

A remarkable year

In April we celebrated the formal conversion of our Saudi operations and branches into a locally registered bank. In doing so we became the first foreign domiciled bank to establish a local commercial bank in the Kingdom. This was a key milestone and will enable us to expand our products and services as a leading digital bank and enhance our performance and profitability.

None of this would have been possible without the invaluable support of the Saudi Government, the Council of Ministers, the Ministry of Finance, the Saudi Arabian Monetary Authority and the Public Investment Fund (PIF) and I thank them all again for the trust they have placed in us and for their assistance which made this achievement possible.

We are also the first bank to be headquartered in the Eastern Province. This footprint offers great potential for further growth by enabling us to foster deeper relationships. This was demonstrated during the historic launch of the Saudi Aramco IPO, during which we were an official receiver of the IPO applications, channelling 4 per cent of all retail subscriptions totalling SAR 8.4 billion. I hope that our financial and human capital investment in the region will encourage investment from other financial services institutions.

I am also delighted to report that our presence has been further reinforced with the successful establishment of our new Operations Centre in Al Khobar cementing our position as a fully committed local financial partner. We were honoured when His Royal Highness Prince Saud bin Nayef Al Saud, Governor of the Eastern Province, opened the Operations Centre in the presence of His Excellency Dr. Ahmed bin Abdulkarim Alkholifey, Governor of the Saudi Arabian Monetary Authority, His Excellency Rasheed Al Maraj, Governor of the Central Bank of Bahrain and other government officials and business leaders.

As part of our support to our local communities we are committed to a 5 year programme of financial support led by Saudi Arabian Monetary Authority to establish the Autistic Center in Riyadh. I am also a strong believer in supporting our ambitious youth and through meem, our retail business, very pleased to be able to sponsor the Saudi adventurer, Saud Al-Eidi in his attempt to climb Mount Everest. Along with most of the Kingdom, I followed the progress of as he slowly ascended to the summit last May. A remarkable achievement and I applaud his skill and tenacity.

Our Financial Performance

Despite being the first nine months of operations, the challenging economic conditions, and the rising costs of doing business associated with improving governance and responding to regulatory changes, I am pleased to report operating income of SAR 493.3 million. Net special commission income, which at SAR 399.6 million represented the Bank's largest income source. Net interest income was achieved despite the unfavourable declining interest rate environment witnessed during 2019. Fee and commission income at SAR 58.2 million comprised 12 per cent of total operating income. Foreign exchange income at SAR 15.4 million comprised 3 per cent, and primarily comprised revenue from customer-related activities, and in particular, revenues derived from bespoke structured products designed to assist customers in hedging their foreign exchange exposures in volatile markets. Dividend income at SAR 13.5 million was predominately derived from the Bank's equity investments.

Our performance reflects the successful strategic diversification of our services and product offerings. Indeed, the strength of earnings has resulted from improved performance across the Bank.

Operating expenses were at SAR 380.6 million for the period, mainly comprising of salaries and employee-related expenses at SAR 180.1 million and other general and administrative expenses at SAR 122.6 million.

Chairman's statement (continued)

Provisions charge for loans and advances of SAR 121.8 million for the period, a direct result of our conservative approach to risk management. Net income after Zakat stood at SAR 7 million for the period.

The strength of our balance sheet reinforces our foundation for future growth, with total assets at SAR 30.6 billion at the end of the period. The asset profile reflects a high level of liquidity with cash and balances with SAMA, and due from banks and other financial institutions totalling SAR 9.7 billion, representing 32 per cent of total assets. Importantly, GIB Saudi Arabia remains a net lender to the interbank market. Loans and advances stood at SAR 17.5 billion at the end of the period.

Confirmation of External Ratings

I am pleased to report that the international rating agencies endorsement of GIB Saudi Arabia's financial strength through 2019. Fitch Ratings affirmed the Bank's long-term issuer default rating (IDR) at 'BBB+', with a Stable outlook. Moody's Investors Service also affirmed GIB Saudi Arabia's long-term deposit rating at 'Baa1' with a Stable outlook. The stable outlook reflects Moody's expectation of the Bank's future stable funding profile. The assurance from the international rating agencies is an acknowledgement of their view of GIB Saudi Arabia's strong shareholder structure, adequate capitalisation and competent management, as well as sound asset quality and strong levels of liquidity.

Innovation and Sustainability

As the finance world continues to evolve at an unprecedented pace, we have recognised the critical importance of efficient application of digital technologies and customer experience as key elements of success in our industry. GIB Saudi Arabia is embracing innovation in all aspects, with technology adoption as a focal point of our business. The Bank continues to guide and encourage cutting edge, digital first and customer centric opportunities that create discerning value propositions in the products and services we offer.

GIB Saudi Arabia's lead in innovation and the digital space also underpins a greater ambition to make a positive impact in all that we do. Our commitment to the principles of economic, social and environmental sustainability among the communities we serve continues to grow, led by the vision to scale capital in support of sustainable development.

This is further reflected in the highly competent management team and people we have assembled across the Kingdom. Our ethos of continuing to attract the best possible talent and offering all of our staff the opportunity to excel in their careers, is paying dividends. We will continue to add to our human capital as we grow.

Adherence to best practice in corporate governance is also absolute. Our risk management framework is structured to comply with the latest regulatory requirements. Equally important is the need to maintain constant vigilance amidst the current economic ecosystem and to ensure prudence in managing customer lending relationships. We have strengthened the supervision of our credit portfolio and introduced early warning indicators of possible stresses in the portfolio.

As we move forward, we are keen to integrate sustainability as a common thread throughout everything we do, with the goal to transform the way we work in order to remain relevant to all our stakeholders.

Strategic Direction

Moving forward, GIB Saudi Arabia's strategic direction and priorities will be reinforced by the fulfilment of our vision and mission statements. As the trusted partner recognised for innovation, regional expertise and international reach, we will continue to build on our capabilities to provide tailored solutions by leveraging our digital advantage and years of banking expertise. Today's world is all about creating agile solutions and smart products for clients, and that is where we aim to excel. At the same time, we are cognisant of the mark we leave. In this regard, GIB Saudi Arabia will increasingly integrate sustainable finance into its business and continue to invest in and develop local talent.

Looking Ahead

At a time of elevated global risks growth, prospects for our region remain subject to uncertainty. Yet, we continue to remain cautiously optimistic. Economic diversification is at the forefront and the challenging environment has not deterred Saudi Arabia from further advancing deep structural reforms under the Vision 2030 program. The groundwork is being continuously laid to enhance the economic and investments drivers for future growth. Saudi Arabia's 2020 G-20 presidency will further raise the profile of the Kingdom to showcase the opportunities that are emerging from the expanse of reform.

Meanwhile, the extraordinary changes underway in the financial industry, catalysed by advancement of mobile technology and instant connectivity, are also opening new vistas of collaboration, opportunity, and growth. The Bank's progressive strategic model and refreshed direction, with its focus on diversification of revenues, a cost-effective funding profile, service quality, operational efficiencies, and investment in people, provides me with assurance that GIB Saudi Arabia is poised for greater success.

We are living in exceptional times surrounded by challenges in every aspect of our business. However, I have confidence that with our growing resilience, the Bank is well-positioned to continue advancing the business momentum and embrace new opportunities of growth.

Acknowledgement

On behalf of the Board of Directors, I express my deepest gratitude for the unstinting support and confidence of our shareholders, the continuing trust and loyalty of our clients and the encouragement of each and all of our business partners. The ongoing advice and guidance of our regulators and supervisory bodies and agencies is greatly appreciated. Finally, I acknowledge the outstanding commitment, application and professionalism of our management and staff as we continue our transformational journey together.

Abdulla Mohammed Al Zamil
Chairman of the Board

Our Strategy

VISION

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

MISSION

To provide tailored solutions leveraging our digital advantage:

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

PILLARS

Wholesale Banking | Retail Banking | Treasury | Asset Management | Investment Banking

Risk • Information Technology • Operations • Human Resources

STRATEGIC PRIORITIES

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

Management review

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

"Innovation and digital banking applications are the keys to the future of customer service, as well as maintaining state-of-the-art efficiencies. The importance of technology and digitisation is championed at every level in the Bank as well as our growing partnerships with Fintech-related companies."

Volatility and uncertainty dominated 2019. Global trade tensions, unsettled financial markets and the prolonged Brexit negotiations alongside regional geopolitical and economic concerns, created challenging business conditions and underscored the importance of resilience and discipline. I am pleased to report that despite all the uncertainty, GIB Saudi Arabia has had a successful first year, building on our 20 years of operations in the Kingdom.

The recent advent of the novel Coronavirus is causing widespread concern and economic hardship for consumers, businesses and communities across the globe, and rapidly transforming the way that banks and financial institutions serve their customers. We are fortunate that our commercial and retail digital pedigree has positioned us well, allowing for continuity of business in these trying times. I am confident that, like the Kingdom itself, GIB Saudi Arabia has the determination and flexibility to meet whatever challenges the future may hold.

This year we have achieved some significant milestones, including:

- The creation of Gulf International Bank - Saudi Arabia
- Consolidation of our operations in a new central hub in Al Khobar
- The positive impact of our drive toward technological advancement through digital channels
- Successfully undertook the first-ever full disaster recovery exercise held by a bank in Saudi Arabia
- Expanding our retail business, meem
- Further enhancement of our human capital

The conversion of our Saudi operations into a local subsidiary is an important milestone for the Bank. The evolution to a locally incorporated bank has served to strengthen our presence in the Kingdom. It makes our footprint stronger and offers great potential for further growth, by enabling us to foster deeper relationships.

In pursuit of enhanced efficiencies across our operational infrastructure, I am pleased that the new operations centre in Al Khobar has swiftly and seamlessly established its added value, with more than 500 employees now located in this purpose-built base. GIB's one team approach has resulted in the stability of activities and controls, for example the development of the highly successful system management of the Aramco IPO, during which we were an official receiver of the IPO retail applications, channelling 4 per cent of all retail subscriptions, totalling SAR 8.4 billion.

Innovation and digital banking applications are the keys to the future of customer service, as well as maintaining state-of-the-art efficiencies. The importance of technology and digitisation is championed at every level in the Bank as well as our growing partnerships with Fintech-related companies. We have upgraded our straight through processing leading to an enhancement of counterparty relationships.

Management review (continued)

In meem we are building on our digital pedigree, and GIB's fully digital retail service and product suite has gone from strength to strength. In one three-month period in 2019, customers were offered four new different paying services. meem also introduced additional applications, including a simplified digital onboarding for customers. I am delighted that the continued expansion of GIB's retail services will be exclusively digital.

Wholesale Banking drives our Global Transaction Banking and Project Finance business, where we continue to expand. Our focus on SME business through Kafalah, complements our traditional areas and is poised for further growth. We have a well-founded reputation for using our digital advantage to create agile and smart products. Our Treasury business also continues apace in our equity, fixed income, and money market activities.

We successfully rolled out a digital Umrah payment system to completely automate a perpetual Umrah collections and payments for Sejel Technology Co. Ltd. GIB Saudi Arabia onboarded nearly 600 Umrah operators and 7,000+ external agents to support time-sensitive Umrah collections and payments globally. GIB Saudi Arabia is now the key bank for Umrah payments with a market share of nearly 90 per cent.

The depth and quality of our human capital remains an intrinsic and core element of GIB Saudi Arabia's strength. The acquisition, development and training of personnel at all levels, from my senior executive management to our new graduates, is an ongoing priority. We have pioneered the hiring of talent from outside of the traditional banking industry norms, allowing us to develop innovative solutions and adding greater ability to serve our customer segments. Gender equality and opportunity prevails within the Bank, supported by our Women's Empowerment Committee and I am pleased that this year GIB Saudi Arabia's graduate programme is 50% female. With GCC nationals forming over 91 per cent of our employees and supported by a strong graduate programme, including our partnership with Tamheer, we are dedicated in investing and developing local talent for the future. Our guiding philosophy is simply that we seek to hire top quality performers who want to grow their careers with us.

I am greatly encouraged by the tangible progress thus far in the Bank's journey of transformation. I acknowledge the devoted and conscientious willingness of our supportive Board and our committed management and employees. With our endeavours to diversify the Bank's reach, the consolidation of our existing valued customer and partner relationships, and the wholehearted embrace of cutting-edge banking applications, we are committed to delivering greater shareholder value. I look forward to further success for GIB Saudi Arabia in 2020 and beyond.

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

STRATEGY REPORT

INCREASE AND DIVERSIFY REVENUE

SAR 493.2 million

Total operating income

- The establishment of GIB Saudi Arabia as a subsidiary presents strong opportunities for revenue/income growth and diversification. The bank's total operating income for the period stood at a healthy SAR 493.3 million while net income before provisions was SAR 112.7 million.
- Special commission income and net special commission income for the period stood at a healthy SAR 904.8 million and SAR 399.6 million reflecting a positive start in the implementation of the Bank's strategy.

SAR 399.6 million

Net special commission income

- Net fee and commission income for the period amounted to SAR 58.2 million reflected strong revenue from customer-related activities, and in particular, revenues derived from bespoke structured products designed to assist customers in hedging their foreign exchange exposure in volatile markets.

DELIVER EFFECTIVE FUNDING PROFILE

SAR 21,716.8 million

Total customer deposits

- Total customer deposits grew to SAR 21,716.8 million as of 31st December 2019.

26%

Retail deposits comprised 26 per cent of the total

- Retail customer deposits comprised of a healthy 26 percent of total customer deposits.

IMPROVE OPERATIONAL AND COST EFFICIENCIES

10%

Improvement in straight through processing

+6

Added 6 new retail payment mechanisms

1st

for Enterprise Cyber Security Risk

FICO®

- The move to the Al Khobar operations centre has centralised over 500 of our employees in a single purpose-built building, leading to ever greater effectiveness and efficiency.
- Creation of digital infrastructure to seamlessly manage cash management and supply chain finance propositions with minimal manual intervention.
- GIB was ranked number 1 by FICO in its Enterprise Cyber Security Risk for medium sized finance and banking organisations. This is a testimony to the Bank's commitment to improving our security posture. We were also ranked two notches above our peer average by Gartner for Security & Risk Management.
- Delivery of automated solutions to improve testing cycles across a number of digital applications.
- Continue to modernise our retail architecture through the adoption of Open Banking standards.
- Introduced a fully configurable digital solution for operational risk management, streamlining the operational risk management process with electronic workflows and allowing for greater awareness and transparency on operational risk related data and reporting.
- Delivered multiple retail payment initiatives for meem customers - Apple Pay, Mada Pay, Mada Online, CCB contactless Mandate, Atheer, Card Merge.

Management review (continued)

STRATEGY REPORT (continued)

BECOME AN EMPLOYER OF CHOICE

"A place where talented people thrive"

78% GCC Nationals of total Group headcount

50% female graduates

- Hired more than half of the Saudi graduates who had work experience in the Bank through our Tamheer progamme. 70 per cent of these were female.
- Recruiting of non-traditional banking staff to diversify skill sets and give the Bank the ability to develop innovative digital solutions for customers.
- Successful GCC graduate programme with 50 per cent female population. In 2019, most of the graduates entered the Treasury and Investment Banking businesses.
- Created a Woman Empowerment Committee to put forward proposals to assist in the career advancement of female staff at all levels.
- The new training academy in the operations centre is circa 10 per cent of the working floorspace in the building and is dedicated to allowing employees to attend classroom training and external courses. For the 3rd year running, we have exceeded our target of an average of 5 days training per employee.
- Scholarship Programme with Prince Mohammed Bin Fahd University, empowering young GCC talent by providing them financial assistance to pursue their higher education.
- Partnership with the London Business School for leadership training. In 2019, three cohorts of our Future and Senior leaders, all 100 per cent GCC nationals, progressed through their respective programmes.
- GIB Saudi Arabia's total headcount at end of 2019 was 565, of which 91 per cent are GCC nationals and 22 per cent are women. Our employees come from 17 different nationalities.

ENHANCE SERVICE EXCELLENCE AND QUALITY

"We don't sell products and services - we sell our customers time."

Carried out the first successful full-scale disaster recovery exercise held by a bank in Saudi Arabia

Market leading Bank for Umrah payments

- GIB carried out the first successful full-scale disaster recovery exercise held by a bank in Saudi Arabia.
- Successfully rolled out a digital Umrah payment system to completely automate 24/7 Umrah collections and payments for Sejel Technology Co. Ltd. GIB Saudi Arabia onboarded nearly 600 Umrah operators and 7,000+ external agents to support time sensitive Umrah collections and payments globally. GIB Saudi Arabia is now the key bank for Umrah payments with a market share of nearly 90 per cent.

DRIVING INNOVATION

Pay

مدى mada

أثير atheer

- Opened another digital branch in Riyadh with state of the art facilities to engage customers in digital banking.
- Signed a strategic partnership agreement with KFUPM Business School to promote digital literacy, collaboration and innovation in Saudi Arabia.
- Signed an agreement to support MSMEs in Saudi Arabia with a leading GCC Fintech to provide financing solutions.
- Partnered with Fintech Saudi to host a forum on digital banking 4.0 to supporting the ongoing development of the Kingdom's fast-growing fintech ecosystem.
- Introduced four new payment services for our customers in Saudi Arabia including Apple Pay within three months.

TOP TRANSACTIONS AND AWARDS

TRANSACTIONS

Saudi Aramco IPO

The highlight of the year was undoubtably the Saudi Aramco IPO. The GIB Group handled 4 per cent of the applications for the IPO amounting to SAR 8.4 billion.

Shomoul Mall Commercial Company

Mandated Lead Arranger and Financier for SAR 5,600 million Islamic facility to part finance cost of development of a super-regional mall in Riyadh.

Sejel Technology Co. Ltd.

Umrah external ePayment system was implemented to digitise Umrah collections and payments for Sejel which resulted in over 3 million payments with over 10,500 virtual accounts. This infrastructure is powered by GTB's flagship product, eCollect. GIB's eCollect platform provides a comprehensive solution that enables Sejel to integrate through our API Banking. GIB is first bank to go live and able to onboard nearly 600 Umrah operators and 7000+ External agents in the eCollect System. Established and positioned GIB as a leading digital cash management bank in Saudi Arabia and beyond.

AWARDS

2019 GLOBAL BANKING & FINANCE AWARDS

meem by GIB: Best Shariah Digital Bank, Saudi Arabia

EMEA FINANCE MIDDLE EAST BANKING AWARDS 2019

GIB Saudi Arabia: Best Local Investment Bank for Saudi Arabia and Bahrain

SAUDI TRADE FINANCE SUMMIT AWARDS

GIB Saudi Arabia: Best Supply Chain Finance Bank in Saudi Arabia

Sustainability and corporate citizenship review

GIB created its WAGIB Sustainability and Corporate Social Responsibility Programme in 2015 to formalise what most people in the Bank had already recognised and embraced – that sustainable development and good corporate citizenship is an integral part of GIB's DNA.

Our endeavours reflect the concerns and endeavours of our communities and in 2019 the environment and those less fortunate than ourselves featured prominently. We were pleased to start a five year programme of financial support led by Saudi Arabian Monetary Authority to establish the Autistic Center in Riyadh.

واجب
WAGIB

Sustainability and corporate citizenship review (continued)

GIB is deeply committed to supporting initiatives which bring to life the goals and objectives of Saudi Arabia's Vision 2030. These include the development of sporting, entertainment and tourism industries to create further growth and diversification.

The region's future

- GIB Saudi Arabia hosted 'Digital Banking 4.0 – the new frontier' event as part of Fintech Saudi's 2019 Tour at GIB's Operations Centre in Al Khobar in support of the ongoing development of the Kingdom's fast-growing fintech ecosystem. The event discussed the key changes in consumer expectations and demands and how leading organisations are responding.

FintechSaudi

Environment and Community

- We are proud to partner and encourage our ambitious youth. Through meem, GIB sponsored Saudi adventurer, Saud Aleidi, as he became the youngest Saudi to conquer Mount Everest, a remarkable achievement. We offer our congratulations to his tenacity and skill.
- Saudi Market Day, a GIB joint event with Al Kifah Holding Co, supported Saudi SMEs and the Joud Charitable Society, which assists families with limited income, orphans, and people with special needs.

- We were proud to congratulate all our graduates for completing their two year Jammaz Al-Suhaimi Graduate Programme. The programme helps to feed the GIB GCC talent pipeline by selecting talented university graduates and developing them for future professional roles and duties within the Bank. In support of the programme, an open day was held in Al Khobar, attended by over a hundred GCC graduates, to help us select the 2020 cohort – continuing the pipeline of potential future executives for GIB.
- GIB was proud to be a partner of the inaugural Saudi International golf tournament, powered by SoftBank Investment Advisers. This was the first time the European Tour was held in the Kingdom.
- GIB also held the 4th GIB Golf Cup in Riyadh for over 100 professional and amateur players to provide another platform for Saudi players and the national team to showcase their talent and vast potential.

Empowerment

- Employees combined in several activities to celebrate International Women's Day, to acknowledge and honour their invaluable contributions to our organisation and communities.

Financial review

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

GIB Saudi Arabia was incorporated as a Saudi Closed Joint Stock Company on 3rd April 2019 and the period from 3rd April 2019 to 31st December 2019 (the "period") represents the first year of operations. 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.

GIB Saudi Arabia recorded a healthy total operating income of SAR 493.3 million for the period. While net income after zakat stood at SAR 7.0 million for the period.

Net special commission income, which at SAR 399.6 million represented the Bank's largest income source. This reflected a positive start in the implementation of the Bank's strategy, including meaningful progress in the strategically important global transaction banking and retail banking initiatives.

Fee and commission income at SAR 58.2 million comprised 12 per cent of total operating income. Foreign exchange income at SAR 15.4 million comprised 3 per cent of total income, and primarily comprised revenue from customer-related activities, and in particular, revenues derived from bespoke structured products designed to assist customers in hedging their foreign exchange exposures in volatile markets.

Dividend income at SAR 13.5 million was predominately derived from the Bank's equity investments.

Financial review (continued)

NET SPECIAL COMMISSION INCOME

Net special commission income at SAR 399.6 million for the period and principally derived from the following sources:-

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

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

Special commission income on the loans and advance portfolio accounted for 80 per cent of the bank special commission income.

Money book earnings representing income on inter-bank and customer placements and deposits accounted for 14 per cent of special commission income and accounted for 98 per cent of the total special commission expense.

Special commission income on the investment securities portfolio accounted for 6 per cent of special commission income.

NON-INTEREST INCOME

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

Fee and commission income was at SAR 58.2 million and an analysis of fee and commission income is set out in note 20 to the financial statements. Commissions on letters of credit and guarantee were the largest source of fee-based income, comprising 78 per cent of fee and commission income for the period

Foreign exchange income was at SAR 15.4 million for the period. Foreign exchange income principally comprised income generated from customer-initiated foreign exchange transactions that were offset in the market with matching transactions. Accordingly, there is no market risk associated with the transactions that contribute to this material source of income. The strong foreign exchange earnings reflected success in the cross-selling of innovative products to meet customers' needs and requirements, and the development of new products to meet those needs. A growing demand is being witnessed for these products as customers value the benefits derived from effectively managing and hedging their currency exposures. During the period, the Bank continued to expand its customer base to create a broader and a more desirable diversification of earnings from these products, as well as generating repeat business from existing clients.

Dividend income was at SAR 13.4 million and represented dividends from the Bank's strategic equity portfolio. While the Bank's various trading activities recorded a SAR 4.0 million income for the period. Trading income is reported inclusive of all related income, including gains and losses arising on the purchase and sale, and from changes in the fair value of trading securities, customer-related interest rate derivatives, and including all related funding costs. The Bank has a limited risk appetite for trading activities, with majority of the Bank's trading activities relating to seed investments in funds managed by the asset management arm of the Bank.

OPERATING EXPENSES

Operating expenses was at SAR 380.6 million for the period as referred to in note 22 to the financial statements.

Salaries and employee-related expenses, which at SAR 180.1 million accounted for almost 50 per cent of total operating expenses, with an average headcount of 733 employees including 153 outsourced employees.

Rent and premises-related expenses was at SAR 14.0 million for the period. Depreciation and amortisation expense was at SAR 63.9 million which included SAR 17.0 million for intangible assets being software and SAR 22.1 million on right-of-use assets on the adoption of the new accounting standard - IFRS 16 on leases.

Other operating expenses was at SAR 122.6 million and principally included IT and other maintenance expense of SAR 28.9 million, advertising expenses of SAR 16.5 million, managed services of SAR 11.9 million and legal, consulting and other fees of SAR 13.6 million. During the period, a number of IT-related resources were transferred to a managed service arrangement whereby the Bank engaged vendors to provide specified services rather than engage resources directly. These arrangements resulted in a more cost effective provision of routine IT support services.

PROVISIONS

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

CAPITAL STRENGTH

Total equity amounted to SAR 7,506.9 million at 31st December 2019.

With a total regulatory capital base of SAR 7,637.5 million and total risk-weighted exposure of SAR 25,603.4 million, the risk asset ratio calculated in accordance with SAMA guidelines was 29.8 per cent while the tier 1 ratio was 29.3 per cent.

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

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

ASSET QUALITY

The geographical distribution of risk assets is set out in note 26 to the financial statements. The credit risk profile of financial assets, based on internal credit ratings, is set out in note 26.2 to the financial statements. This note demonstrates that 60 per cent of investment securities and loans and advances, were rated 4 or above, i.e. at or above the equivalent of investment-grade rated.

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

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

Investment Securities

Investment securities totalled SAR 2,773.7 million at 31st December 2019. The investment securities portfolio comprises investment-grade rated debt securities issued by major international and regional financial institutions and government-related entities.

Investment securities comprise two types of debt security portfolios and a limited investment in equities and equity funds. The larger debt security portfolio comprises fixed rate securities that have been swapped to yield constant spreads over SAIBOR. These accounted for SAR 1,764.6 million, or 81 per cent, of total investment debt securities at the 2019 year end. The smaller debt security portfolio represents the floating rate securities amounting to SAR 427.8 million at the end of 2019.

Equity investments at the end of 2019 amounted to SAR 584.7 million and primarily comprised listed equities and equity funds.

An analysis of the debt securities portfolio by rating category is set out in note 26.2 to the financial statements. SAR 2,149 million or 98 per cent of the debt securities at the 2019 year end were rated the equivalent of investment grade.

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

Loans and Advances

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

The credit risk profile of loans and advances, based on internal credit ratings, is set out in note 26.2 to the financial statements. SAR 10,559 million or 58 per cent of total loans were rated 4- or above, i.e. the equivalent of investment grade-rated.

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

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

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

Other Asset Categories

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

Commitment Exposure

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

FUNDING

Due to banks and other financial institutions and customer deposits at 31st December 2019 totalled SAR 22,295.2 million. Customer deposits amounted to SAR 21,716.8 million at the 2019 year end, representing 97 per cent of total deposits.

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

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

Board of Directors Report

1. Overview

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

2. Strategy

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

As Saudi Arabia continues to pursue economic reforms and expansion of the private sector, GIB Saudi Arabia's strategic goal is to position itself so as to be able to profitably benefit from the substantial business opportunities that these conditions create. GIB Saudi Arabia aims to be the preferred banking partner for its clients as a result of an ability to provide sophisticated, customer-tailored products and services that provide innovative solutions to increasingly complex financial requirements in GIB's core market.

GIB Saudi Arabia's strategy is centered around five core pillars:

- Enhancing service and excellence quality;
- Increasing and diversify revenue;
- Delivering an effective funding profile;
- Improving operational and cost efficiencies;and
- Becoming an employer of choice.

3. Risk Management

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

GIB Saudi Arabia adopts a holistic view of risks by understanding risks on an enterprise-wide basis analysed through a top-down (risk aggregation) and a bottom-up (risk decomposition) approach.

Risk aggregation takes a portfolio view of risks aggregated across GIB Saudi Arabia's business units taking due consideration of the portfolio effects and correlation of risks prior to determination of the management approach to each single risk. This approach provides guidance to allow balancing risk and reward optimally. Risk decomposition ensures a comprehensive identification and prioritisation of all material risks and the definition and implementation of risk policies and processes that control daily decision making throughout GIB Saudi Arabia. This approach enables employees to make the right risk-return trade-offs in day-to-dayactivities.

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

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

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

Credit Risk

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

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

Prior to the approval of a credit proposal, a detailed credit risk assessment is carried out which includes an analysis of the obligor financial condition, market position, business environment and quality of management. The risk assessment generates an internal credit risk rating for each obligor / customer, which affects the credit approval decision and the terms and conditions of the transaction. GIB Saudi Arabia bases its credit decision for an individual counterparty on the aggregate exposure to that counterparty and all its related entities.

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

Market Risk

Market risk is the current or prospective risk that changes in financial market prices and rates will cause fluctuations in the value and cash flows of financial instruments. The most significant market risks to which GIB Saudi Arabia is exposed are interest rate and equity price risks associated with its trading, investment and asset and liability management activities. Changes in interest rate levels and spreads may affect the interest rate margin realised between GIB Saudi Arabia's lending and investment activities and its borrowing costs, and the value of assets that are sensitive to interest rate and spread changes. Changes in foreign exchange (FX) rates may affect the value of assets and liabilities denominated in foreign currencies and the income from foreign exchange dealing. However, FX risk is deemed to be immaterial. It is difficult to accurately predict changes in economic and market conditions and it is possible that any such significant changes could have a negative impact on GIB Saudi Arabia's financial performance and business operations.

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

Operational Risk

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

A framework and methodology has been developed to identify and control the various operational risks. While operational risk cannot be entirely eliminated, it is managed and mitigated by ensuring that the appropriate infrastructure, controls, systems, procedures, and trained and competent people are in place throughout GIB Saudi Arabia. The Operational Risk Management (ORM) framework is based on the guidelines provided by the Basel Committee on Banking Supervision (BCBS) and the Saudi Arabian Monetary Authority (SAMA) and encompasses the management and oversight of operational risk activities such as the Risk & Control Self-Assessment (RCSA), Key Risk Indicator (KRI) monitoring and Loss Event Management. The ORM framework facilitates the management of operational risk across the three lines of defence and serves to promote a culture of collaboration, integrity, agility and perceptiveness, which has been strengthened by the implementation of an ORM system.

A strong internal audit function makes regular, independent appraisals of the control environment in all identified risk areas. Adequately tested contingency arrangements are also in place to support operations in the event of a range of possible disaster scenarios.

Liquidity Risk

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

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

Board of Directors Report (continued)

GIB Saudi Arabia's liquidity controls ensure that, over the short-term, the future profile of cash flows from maturing assets is adequately matched to the maturity of liabilities. Liquidity controls also provide for the maintenance of a stock of liquid and readily realisable assets and a diversified deposit base in terms of both maturities and range of depositors.

Cash flows are monitored against limits applying to both daily and cumulative cash flows occurring over a 30-day period. The liquidity limits ensure that the net cash outflows over a 30-day period do not exceed the eligible stock of available liquid resources. The cash flow analysis is also monitored on a weekly basis by the Assets and Liabilities Committee (ALCO).

Information and Cyber Security Risk

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

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

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

The Information Security Department (ISD) consists of the GRC function which manages the overall governance, risk and compliance from a security stand-point, Security Operations Centre (SOC) which focuses on monitoring the security 24/7, Application Security that manages security of the applications, Infrastructure Security team which actively manages the security infrastructure, Security Services Team which is a centralised function that facilitates the provisioning and de-provisioning of user access and the Project Management Team that supports implementation of security solutions and manage enterprise wide security programs.

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

4. Geographical coverage

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

5. Financial Highlights

(SAR millions)	**2019**
Total Operating Income	SAR 493.3
Total Operating Expenses	SAR 484.2
Net Profit	SAR 7.0
Return on Equity	0.09%
Basel III Leverage Ratio	20.3%
Tier 1 Ratio	29.3%
Total Ratio	29.8%

6. Financial Reporting Standards

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

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

Compliance

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

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

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

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

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

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

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

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

8. Internal Audit Function

The Internal Audit reports functionally to the Audit Committee and administratively to the Chief Executive Officer, making it independent of management, with the ability to make objective judgements, and having the authority to conduct its work across the whole organisation without constraint. The first Internal Audit review of GIB Saudi Arabia's corporate governance framework was conducted after the incorporation of GIB Saudi Arabia in April 2019. The final report was issued in December 2019. The purpose of the audit was to provide a reasonable assurance on the corporate governance framework of GIB Saudi Arabia.

The overall conclusion of the audit was that the corporate governance framework of GIB Saudi Arabia, taken as a whole, were maintained in a manner which is satisfactory to the achievement of the objectives of the audit.

9. Effectiveness of Internal Control Environment

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

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

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

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

Pursuant to the above review, the Board has endorsed management's assessment of GIB Saudi Arabia's internal control systems.

10. Ethical Standards and Code of Conduct

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

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

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

Board of Directors Report (continued)

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

11. Shareholding Structure

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

12. Loans and Advances

(SAR millions)	31st December 2019
Gross loans and advances	18,289
Provisions for impairment	(799)
Loans and advances, net	17,490

13. Related Party Transactions

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

In the event of proposed dealings with companies associated with a GIB Saudi Arabia Director, the proposals are referred to the Board for approval with the abstention of the Director involved from voting.

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

14. Board of Directors and Executive Management

Composition of the Board of Directors and Attendance at Board Meetings

Name	Function	Membership Type	31st March 2019	13th April 2019	22nd July 2019	13th October 2019	15th December 2019
Eng. Abdulla bin Mohammed Al Zamil	Chairman	Non- Executive	Yes	Yes	Yes	Yes	Yes
Dr. Abdullah bin Hassan Alabdulgader	Vice Chairman	Non- Executive	Yes	Yes	Yes	Yes	Yes
Mr. Abdulaziz bin Abdulrahman Al-Helaissi	Member	Executive	Yes	Yes	Yes	Yes	Yes
Dr. Najem bin Abdulla Al Zaid	Member	Non- Executive	Yes	Yes	Yes	Yes	Yes
Mr. Sultan bin Abdul Malik Al-Sheikh	Member	Non- Executive	Yes	Yes	Yes	Yes	Yes
Mr. Bander bin Abdulrahman bin Mogren	Member	Non- Executive	Yes	Yes	Yes	Yes	Yes
Mr. Rajeev Kakar	Member	Non- Executive	Yes	Yes	Yes	Yes	Yes
Eng. Muhannad bin Kusai bin Hasan Al Azzawi	Member	Non- Executive	Yes	Yes	Yes	Yes	Yes
Mr. Riyad bin Mustafa Al-Dughaither	Member	Non- Executive	Yes	No	Yes	Yes	Yes
Mrs. Anju Patwardhan	Member	Non- Executive	Yes	Yes	Yes	Yes	Yes

Composition of the Executive Management

Name	Current Role
Abdulaziz bin Abdulrahman Al-Helaissi	Chief Executive Officer & Board Member
Mushari bin Faisal Al Otaibi	Chief Operating Officer
Thamer Ahmed Al-Dahash	Head of Corporate Banking
Naif bin Abdulmohsen AlBaz	Chief Risk Officer
Yasser AlAnssari	Head of Governance and Regulatory Control
Adel A. Hamadah	Head of Treasury
Nawaf bin Saad Kably	Chief Human Resources Officer
Ali Abdullah Al-Abkari	Head of Operations
Khalid Mohammed	Head of Internal Audit Department
Moied AlHussain	Head of Legal Department
Laila Abdulaziz Janbi	Head of MLRO and Compliance (Acting)
Hussein Buhaliqah	Head of Information Technology
Jose George	Acting Head of Information Security
Mohammed AlAnazi	Head of Retail Banking (Acting)
Marwan Fouad Abiad	Chief Financial Officer

Remuneration of the Directors and Executive Management

Compensation paid to the Board of Directors of GIB Saudi Arabia in their capacity as Directors for the year ended 31st December 2019 was SAR 4.1 million.

The remuneration of the key management executives for the year ended 31st December 2019 was SAR 17.0 million.

15. Board Committees

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

BOARD COMMITTEES' MEMBERSHIP

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

Board of Directors Report (continued)

Executive Committee

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

Audit Committee

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

Governance, Nomination & Remuneration Committee

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

Board Risk Policy Committee

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

16. Directors and Senior Executive Interest

- Board Members

All the members of the Board of Directors were duly appointed, for the term of 5 years, during the Constituent General Meeting held on 31st March 2019. The Board of Directors, including any persons directly related to them, neither hold any shares nor have any other interest in the company.

- Senior Management

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

17. External Auditors

At the Constituent Shareholders General Assembly, held on 31st March 2019, EY and KPMG were appointed as external auditors for the year ending 31st December 2019.

18. Payment of Zakat and Income Tax

On 14th 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 1st January 2019.

The provision of Zakat liability is estimated based on the results of operations of GIB Saudi Arabia for the period ended and the financial position at 31st December 2019. GIB Saudi Arabia has accrued Zakat liability of SAR 2.017 million for the period ended 31st December 2019.

Being the first year of operations, no Zakat payment has been made to GAZT in 2019. However, GIB Saudi Arabia will file and pay Zakat due no later than 30th April 2020.

19. Employee Benefit Scheme

End-of-service benefits (as per Saudi Labor Law) have been provided based on the employees' length of service. As of 31st December 2019, the total end-of-service provision is SAR 45.2 million.

20. Applicable Laws

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

21. Fines and Penalties

The below table shows the fine by SAMA for the 2019 fiscal year due to an old one-time instance where incorrect input was provided to SAMA through the SAMA-Net Portal back in 7th August 2017.

Subject of Violation in 2019 fiscal year	Number of penalties	Total amount of fines in SAR
Violation of SAMA's supervisory instructions	1	100,000

22. Declarations

The Board of Directors hereby confirms (with reference to year ending 31st December 2019) that:

- Proper books of accounts have been maintained.
- GIB Saudi Arabia prepares its financial statements in accordance with International Financial Reporting Standard.
- The Internal Audit and external reviewers' reports have highlighted the opportunities for implementation and enhancement in the internal controls of GIB Saudi Arabia which were either addressed or are in the process of being addressed by the management. Internal Audit tracks these recommendations and provides an update on the implementation to the Audit Committee on periodic basis.
- In accordance with the Code of Conduct which covers Related Party Transactions, GIB Saudi Arabia maintains 2 existing contracts with entities in which a Director has a material interest. The Directors involved abstained from discussions and voting in relation to these contracts.
- There is no doubt over GIB Saudi Arabia's ability to continue to operate accordingly as a going concern.
- The Board has endorsed management's assessment of GIB Saudi Arabia's internal control systems.
- After the review by the Audit Committee, the Board approved the consolidated financial statements for the year 2019 on 23rd February 2020 as recommended by the Committee.
- GIB Saudi Arabia has implemented all provisions of the Principles of Corporate Governance issued by SAMA.

Internal Controls Report

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

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

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

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

To ensure the effectiveness of the set Enterprise risk management framework, the Board Risk Policy Committee relies on adequate line functions for independent monitoring and assurance functions within GIB Saudi Arabia, using a

'Three Lines of Defense' Risk Management model to ensure that control roles are independent and responsibilities are segregated – with the *'First line of defense'* owning and managing risk as direct line functions, the *'Second line of defense'* overseeing through specialists in risk management, control, Legal and compliance functions, and the *'Third line of defence'* providing independent assurance through specialist functions like Internal audit and External Statutory Audit teams. GIB Saudi Arabia follows a *Forward-looking Stress Testing Framework* across all risk families to identify possible events or changes in market conditions that could adversely impact the bank, and this helps in identifying action plans for timely and adequate risk mitigating actions.

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

The *Internal Audit Unit* reports functionally to the Audit Committee and administratively to the Chief Executive Officer, making it independent of management, with the ability to make objective judgements, and having the authority to conduct its work across the whole organisation without constraint. Internal Audit is properly and adequately resourced with a team of professionals with appropriate knowledge, skills, and experience. It follows a risk-based approach in developing and executing the internal audit plan in order to focus on the greatest threats to the bank and includes all areas of risk – such as policy adherence, culture and ethics, adequacy of required capacity and appropriateness of talent quality, reputation, new products, and the results of new processes and changes -to assess and evaluate the adequacy and effectiveness of GIB Saudi Arabia's systems of internal controls and to provide a reasonable assurance to the Audit Committee.

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

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

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

The *information security function* secures GIB Saudi Arabia's information assets and payment and settlement systems.

GIB Saudi Arabia's *Compliance and Anti-money laundering function* performs its functions and duties through a continuous process of compliance risk assessment and ensures compliance with all applicable regulatory requirements. The Compliance Unit has a direct reporting line to the Audit Committee.

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

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

Opinion on Internal Control by the Audit Committee

For the period ended 31st December 2019, and pursuant to Article 104 of the Saudi Companies Law (2015), which requires the Audit Committee to report its opinion on adequacy of the internal controls framework in GIB Saudi Arabia, the Audit Committee was made aware of the opportunities for enhancement in the internal controls of GIB Saudi Arabia. These recommendations were addressed, or are in the process of being addressed, by management. Furthermore, these recommendations are tracked and validated independently by Internal Audit and an update on the implementation is provided to the Audit Committee on periodic basis.

Board of Directors biographies

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

Eng. Abdulla bin Mohammed Al Zamil is a board member and the Chief Executive Officer of Zamil Industrial Investment Company, having previously served as Chief Operating Officer. Prior to this, he was the Senior Vice President at Zamil Air Conditioners, where he started his career as an industrial engineer. He is also the Chairman of Saudi Global Ports & Dammam Airports Company and his board memberships include Gulf Insulation Group and Ranco-Zamil Concrete Industries. Board memberships of government entities include the Eastern Province Council and Eastern Health Cluster and non-profit organisations including Dhahran Ahliyya School. Eng. Al Zamil holds an MBA (with a concentration in Finance) from King Fahd University of Petroleum and Minerals, Saudi Arabia, and a BSc in Industrial Engineering from the University of Washington, USA. He has 32 years' professional experience.

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

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

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

Mr. Al-Helaissi holds a BA in Economics from the University of Texas in Austin, USA and has 30 years of banking and regulatory experience primarily in Saudi Arabia.

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

Dr. Abdullah bin Hassan Alabdulgader is a Non-Executive Director (NED) at Saudi Arabian Investment Company, Saudi Arabian Railroads Company, and Al Faisaliah Group. Prior to this, he was an academic and professor of business administration at King Fahd University of Petroleum and Minerals for more than 20 years. In 2004, he was appointed as a Commissioner at the Saudi Capital Market Authority (CMA), where he served for 5 years and led the development of the Kingdom's corporate governance code. Since leaving the CMA he has chaired the Regulatory and Policy Oversight Committee at the Saudi Stock Exchange (Tadawul). From 1998 onwards, Dr. Alabdulgader has been a NED in large banking and telecommunications corporations.

As the founding Executive Director of the GCC Board Directors Institute, a non-profit organisation that provides board effectiveness training, he has continued to promote corporate governance in the region. He has been associated with the Saudi Organization of Certified Public Accountants since 1990. Dr. Alabdulgader holds a PhD in Business Administration from University of Colorado, USA, and an MBA and BSc in Business Administration from King Fahd University of Petroleum and Minerals. He has 35 years' professional experience.

Board of Directors biographies (continued)

Mr. Sultan bin Abdul Malik Al-Sheikh
Director since 2019

Mr. Sultan bin Abdul Malik Al-Sheikh is the Director for the Local Holdings Investment Division at the Public Investment Fund of Saudi Arabia (PIF). He is also a board member of Almarai Company, Saudi Fisheries Company, Tahakom Investment Company, Saudi Company for Exchanging Digital Information and The Helicopter Company as well as being an executive committee member of the Saudi Telecom Company. Prior to joining PIF, Mr. Al-Sheikh was a Vice President, Investment Banking, at Saudi Fransi Capital. Before that he worked as an officer in the Securities Listing and Corporate Finance and Issuance departments at the Saudi Capital Market Authority and as a relationship manager, Corporate Banking Group, at Saudi Arabia's National Commercial Bank. Mr. Al-Sheikh holds a MSc in Finance from George Washington University, USA and a BSc in Finance from King Fahd University of Petroleum and Minerals, Saudi Arabia. He has 16 years' professional experience.

Mr. Rajeev Kakar
Director since 2019

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

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

Mr. Kakar holds an MBA, Finance & Marketing from the Indian Institute of Management and a Bachelor of Technology, Mechanical Engineering from the Indian Institute of Technology. He has 33 years' professional experience.

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

Eng. Muhannad bin Kusai bin Hasan Al Azzawi is the Chairman and Chief Executive Officer of the Saudi Industrial Construction & Engineering Projects Company. He is also the Chairman of the Saudi Technology & Trade Company, the AlWusata Development Company and Merrill Lynch Kingdom of Saudi Arabia as well as being the Chairman of their Remuneration & Nomination Committee. He is a board member of Taiba Investment Company, and a member of their Investment and Remuneration & Nomination committees. He is a board member of the Saudi Arabian Golf Federation, and Chairman of their Investment Committee. Eng. Al Azzawi is a board member of the Golf Saudi company, and Chairman of the Investment Committee, as well as being a board member, and member of the Executive Committee, for the Saudi General Authority for Civil Aviation.

He is member of the National Contractors' Committee, Council of Saudi Chambers; Vice-chairman of the Contractors' Committee, Riyadh Chamber of Commerce & Industry; and a member of the Joint Saudi-French Business Council. In addition, he represents the private sector on several Government committees concerned with the private sector in Saudi Arabia. He has been a member of the Young Presidents' Organization since 2000 and served as the Saudi chapter Chairman in 2006 and 2007.

Eng. Al Azzawi holds a BSc in Computer Engineering from King Saud University, Saudi Arabia. He has 27 years' professional experience.

Dr. Najem bin Abdulla Al Zaid
Director since 2019

Dr. Najem bin Abdulla Al Zaid is the Founding Partner of ZS&R law firm in association with Hogan Lovells. He is the Vice Chairman of the Saudi Electricity Company, a member of the Tadawul Regulatory Policies and Oversight Committee and the Audit & Risk Committee of the Diriyah Gate Development Authority. He also served as the Vice Chairman of The Mediterranean & Gulf Cooperative Insurance & Reinsurance Company and as a board member of the National Centre for Privatization & PPP. Prior to founding ZS&R, Dr. Al Zaid was the Chief Governance and Legal Officer at Al Rajhi Bank Group and had previously served as the Commissioner and a board member of the Saudi Capital Market Authority, appointed by royal decree.

Dr. Al Zaid holds a Doctor of Juridical Science from the George Washington University Law School, USA, a Master of Laws from the University of Minnesota Law School, USA, a High Diploma in Law from the Institute of Public Administration, Saudi Arabia and a BA in Islamic Jurisprudence & Law from Umm AlQura University, Saudi Arabia. He has 23 years' professional experience.

Mrs. Anju Patwardhan
Director since 2019

Mrs. Anju Patwardhan is the Managing Director of the USD 500 million CreditEase Fintech Venture Fund. She managed the fund from its inception in 2016 and has invested in over 40 companies globally. She is also a member of its investment committee.

Prior to this, she worked for over two decades with Citibank and Standard Chartered Bank (SCB) in Singapore. She held global and regional leadership roles, including Chief Operating Officer, Chief Risk Officer, Digital Banking Head, and Global Chief Innovation Officer. She was a member of SCB's global executive leadership team, member of its global Technology & Operations Management Group, and member of the global Risk Management Group.

Mrs. Patwardhan's numerous academic accolades include Fulbright Fellow and Visiting Scholar from ASEAN at Stanford University in California, Fellow of the Distinguished Careers Institute at Stanford University, and a Distinguished Fellow of the Singapore Institute of Banking & Finance (Risk Management). She was also Fintech Industry Expert at the Sutardja Center for Entrepreneurship & Technology at the University of California, USA. Her focus was on use of technology to support financial inclusion and financial well-being.

Mrs. Patwardhan has been a member of the World Economic Forum's steering committee on 'Disruptive Innovation in Financial Services' since 2015 and was a member of the WEF's Global Future Council on Blockchain from 2016 to 2018. She was also a member of Institute of International Finance Advisory Group on Fintech Partnerships. She currently serves on the boards of fintech companies in California, London and Singapore.

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

Mr. Riyad bin Mustafa Al-Dughaither
Director since 2019

Mr. Riyad bin Mustafa Al-Dughaither is the Founder and Principal Consultant of Bahrain-based Intelligentsia Consultancy, which advises financial institutions on the formulation and implementation of asset, risk and investment management strategies. Prior to this, he was Group Chief Risk Officer at Bank ABC, Bahrain, where he was responsible for risk management oversight of the Bank's operations spanning 12 countries. Before this, Mr. Al-Dughaither spent 17 years with Riyad Bank, Saudi Arabia, where he held a number of senior executive positions including Chief Risk Officer, AGM - International Banking, and Executive Manager - Houston Agency, USA. He was instrumental in establishing an umbrella of leading mutual funds, and also led teams in closing a number of multi-million-dollar syndicated loan transactions in Saudi Arabia.

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

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

Mr. Bander bin Abdulrahman bin Mogren
Director since 2019

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

Previously, he was Managing Director of Human Resources and Corporate Services at NCB Capital, Head of Human Resources at Jadwa Investment as well as having held managerial positions at STC. Mr. Mogren holds a BA in Human Resources and Business Administration from Eastern Washington University, USA. He has 18 years' professional experience.

Senior Executive Management

Abdulaziz bin Abdulrahman Al-Helaissi

Chief Executive Officer & Board Member

Member of Board Executive Committee and Chairman of Management Committee

Mushari bin Faisal Al Otaibi

Chief Operating Officer

Member of Management Committee, Human Resources Committee, Operational Risk Management Committee, Business Continuity Committee, Information Technology Committee and Information Security Committee

Marwan Fouad Abiad

Chief Financial Officer

Member of the Management Committee, Chairman of the Assets & Liabilities Committee, Member of the Group Risk Committee, Operational Risk Management Committee, Information Security Management Committee and Tender Review Committee

Nawaf bin Saad Kably

Chief Human Resources Officer

Member of the Management Committee, Operational Risk Management Committee, Information Security Committee and Secretary of the Numeration and Remuneration Committee

Hussein Buhaliqah

Head of Information Technology

Member of the Management Committee, Digital Committee and Risk and Information Security Committee

Adel A. Hamadah

Head of Treasury

Member of Asset Liabilities Committee, Saudi Investment Committee, MSME Committee and Business Continuity Management Committee

Ali Abdullah Al-Abkari

Head of Operations

Member of the Management Committee, Credit Committee, Business Continuity Committee, Treasury Management Committee, Group Risk Committee, Group Board Risk Policy Committee and Operational Risk Management Committee

Thamer Ahmed Al-Dahash

Head of Corporate Banking

Member of the Management Committee, Assets and Liabilities Committee, Credit Committee, and Investment Committee

Mohammed AlAnazi

Head of Retail Banking (Acting)

Member of the Management Committee, Digital Strategy Committee, Assets and Liabilities Committee, Operational Risk Management Committee and Information Security Committee

Laila Abdulaziz Janbi

Head of MLRO and Compliance (Acting)

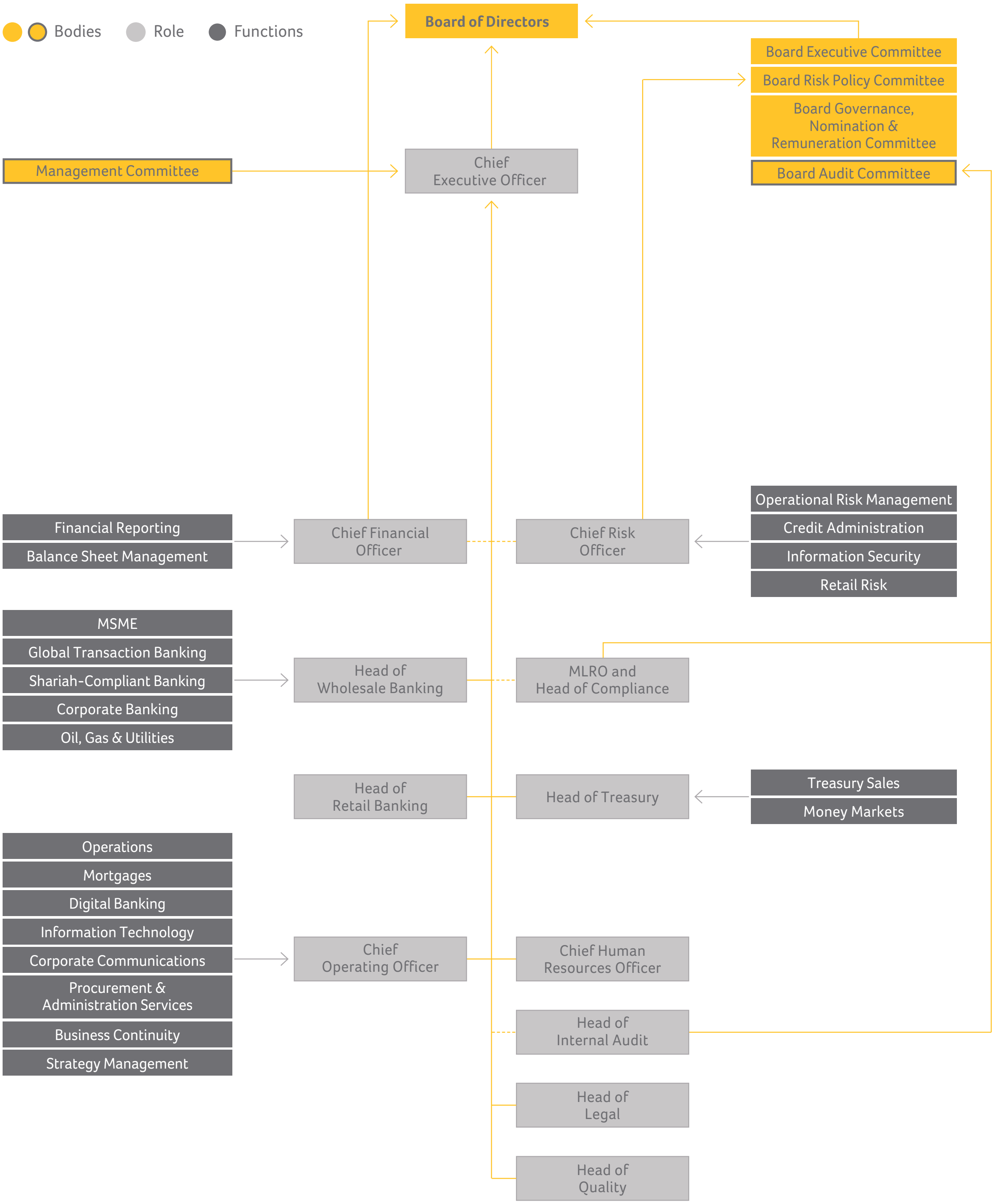
Member of Management Committee

Naif bin Abdulmohsen AlBaz

Chief Risk Officer

Member of the Management Committee, Assets & Liabilities Committee, Compliance Committee, Credit Committee, Fraud Committee and Crisis Management & Disaster Recovery Committee, Secretary of Board Risk Policy Committee, Chairman of Information Security Committee, Operational Risk Committee and Risk Committee

Organisation and corporate governance chart



Financial statements

For the period ended 31st December 2019

Contents

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

Building a better working world

KPMG Al Fozan & Partners
Certified Public Accountants

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Gulf International Bank – Saudi Arabia (the "Bank"), which comprise the statement of financial position as at 31 December 2019, and the statements of income, comprehensive income, changes in equity and cash flows for the period from 3 April 2019 to 31 December 2019, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2019, and its financial performance and its cash flows for the period from 3 April 2019 to 31 December 2019 in accordance with International Financial Reporting Standards ("IFRSs") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRSs that are endorsed in KSA").

Basis for Opinion

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

Other Information included in the Bank's 2019 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Bank's 2019 annual report, other than the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

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

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the IFRSs as endorsed in KSA, the applicable requirements of the Regulation for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-Laws, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Report on other legal and regulatory requirements

Based on the information that has been made available to us, nothing has come to our attention that causes us to believe that the Bank was not in compliance, in all material respects, with the applicable requirements of the Regulation for Companies, the Banking Control law in the Kingdom of Saudi Arabia and the Bank's By-Laws in so far as they affect the preparation and presentation of the financial statements, for the period from 3 April 2019 to 31 December 2019.

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(Certified Public Accountants)

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Abdulaziz Abdullah Alnaim
License No. 394

2 Shaban 1441 H
(26 March 2020)

Statement of Financial Position

As at 31st December 2019

	Notes	2019 SAR (thousands)
ASSETS		
Cash and balances with SAMA	4	8,243,841
Due from banks and other financial institutions	5	1,448,087
Investments, net	6	2,773,746
Positive fair value of derivatives	12	160,959
Loans and advances, net	7	17,490,442
Property and equipment, net	8	76,683
Intangible assets, net	9	50,883
Right-of-use assets	11	235,981
Other assets	10	146,157
Total assets		**30,626,779**
LIABILITIES AND EQUITY		
Liabilities		
Due to banks and other financial institutions	13	578,469
Customers' deposits	14	21,716,758
Negative fair value of derivatives	12	175,739
Lease liabilities		224,542
Other liabilities	15	424,392
Total liabilities		**23,119,900**
Equity		
Share capital	16	7,500,000
Statutory reserve	17	1,753
Fair value reserve		2,045
Retained earnings		3,081
Total equity		**7,506,879**
Total liabilities and equity		**30,626,779**

The financial statements were approved by the Board of Directors on 23rd February 2020 and signed on its behalf by:

Abdulla Mohammed Al Zamil
Chairman

Abdulaziz A. Al-Helaissi
Chief Executive Officer

Marwan Abiad
Chief Financial Officer

The accompanying notes 1 to 34 form an integral part of these financial statements.

Statement of Income

For the period from 3rd April 2019 to 31st December 2019

	Notes	For the period from 3 April 2019 to 31 December 2019 SAR (thousands)
Special commission income	19	904,779
Special commission expense	19	(505,132)
Net special commission income		**399,647**
Fee and commission income	20	61,852
Fee and commission expense	20	(3,603)
Net fee and commission income		58,249
Exchange income, net		15,445
Loss on investments at FVTPL, net		(681)
Dividend income		13,453
Gain on other FVTPL financial instruments, net		4,669
Other income		2,472
Total operating income		**493,254**
Salaries and employee-related expenses	21	(180,079)
Rent and premises-related expenses		(14,016)
Depreciation and amortization	8, 9, 11	(63,896)
Other general and administrative expenses	22	(122,608)
Operating expenses before impairment charge		**(380,599)**
Impairment charge for expected credit losses, net	7	(121,841)
Impairment charge on investments, net	6	(1,062)
Impairment reversal on other financial assets		19,274
Total operating expenses		**(484,228)**
Net operating income		**9,026**
Zakat for the period	23	(2,017)
Net income for the period after Zakat		**7,009**
Earnings per share (Expressed in SAR per share)		
Basic and diluted earnings per share	16	0.009

The accompanying notes 1 to 34 form an integral part of these financial statements.

Statement of Comprehensive Income

For the period from 3rd April 2019 to 31st December 2019

	For the period from 3 April 2019 to 31 December 2019 SAR (thousands)
Net income for the period	7,009
Other comprehensive income	
Items that cannot be reclassified to statement of income in subsequent periods	
- Fair Value through Other Comprehensive income (FVOCI) equity investments:	
- Net change in fair value	(3,488)
- Actuarial gains on defined benefit pension plans	3,358
Total other comprehensive income for the period	6,879

The accompanying notes 1 to 34 form an integral part of these financial statements.

Statement of Changes In Equity

For the period from 3rd April 2019 to 31st December 2019

	Share capital	Statutory reserve	Fair value reserve	Retained earnings	Total equity
	SAR (thousands)	SAR (thousands)	SAR (thousands)	SAR (thousands)	SAR (thousands)
Share capital issuance on 3rd April 2019	**7,500,000**	**-**	**-**	**-**	**7,500,000**
Net income for the period	-	-	-	7,009	7,009
Net change in fair value of equity investments classified as fair value through other comprehensive income	-	-	(3,488)	-	(3,488)
Actuarial gain on defined benefit pension plan	-	-	-	3,358	3,358
Total comprehensive income for the period	-	-	(3,488)	10,367	6,879
Realized loss on sale of equity investments	-	-	5,533	(5,533)	-
Transfer from retained earnings	-	1,753	-	(1,753)	-
At 31st December 2019	**7,500,000**	**1,753**	**2,045**	**3,081**	**7,506,879**

The accompanying notes 1 to 34 form an integral part of these financial statements.

Statement of Cash Flows

For the period from 3rd April 2019 to 31st December 2019

	Note	For the period from 3 April 2019 to 31 December 2019 SAR (thousands)
OPERATING ACTIVITIES		
Net income before zakat		**9,026**
Adjustments to reconcile net income before zakat to net cash flow from operating activities:		
Net accretion of discount on financial assets at amortised cost		(4,066)
Depreciation and amortisation		63,896
Write off of fixed assets		4,773
Impairment charge for investments, net		1,062
Impairment charge for credit losses, net		121,841
Impairment reversal for other financial assets		(19,274)
Unrealized loss on investments		(3,988)
		173,270
Net (increase) / decrease in operating assets:		
Statutory deposit with SAMA		279,183
Due from banks and other financial institutions		(30,018)
Positive fair value of derivative financial instruments		(63,062)
Right-of-use assets		(182,716)
Loans and advances		(758,113)
Other assets		(28,841)
Net increase in operating liabilities:		
Due to banks and other financial institutions		48,731
Negative fair value of derivatives		70,676
Customers' deposits		1,773,080
Lease liabilities		171,606
Other liabilities		49,475
Net cash inflow from operating activities		1,503,271
INVESTING ACTIVITIES		
Purchase of investments		(434,923)
Proceeds from sale of investments		731,163
Purchase of property and equipment and intangible assets		(55,356)
Net cash inflow from investing activities		240,884
Net increase in cash and cash equivalents		1,744,155
Cash and cash equivalents at the beginning of the period		6,929,294
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	24	8,673,449
Special commission received during the period		904,779
Special commission paid during the period		(505,132)
Supplemental non-cash information		
Net change in fair value of equity investments classified as FVTOCI		(3,488)
Zakat		2,017
Amounts transferred to share capital from:		
Due to banks and other financial institutions		3,750,000
Customers' deposits		3,750,000

The accompanying notes 1 to 34 form an integral part of these financial statements.

Notes to the Financial Statements
At 31st December 2019

1. General

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

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

The Bank carried out its operations from its three locations in Riyadh, Jeddah and Dhahran with number of employees totalling 568 as at 31st December 2019 excluding outsourced employees. Upon formation of the Saudi Closed Joint Stock Company, the net assets and liabilities of the foreign branch of Gulf International Bank B.S.C – Kingdom of Bahrain were transferred to the Bank. The net assets and liabilities transferred at 3rd April 2019 were as follows:

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

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

Notes to the Financial Statements

At 31st December 2019

1. General (continued)

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

Name of subsidiary / Fund	Country of incorporation	Ownership %	Proportion of ownership/voting power
Dar Enjaz Gulf Real Estate Company	Kingdom of Saudi Arabia	100%	Incorporated in the Kingdom of Saudi Arabia under Commercial Registration no.1010326338, issued in Riyadh. The Subsidiary was formed with the approval of SAMA for the purpose of dealing, managing and holding real estate on behalf of the Bank.
GIB Opportunistic Saudi Equity Fund	Kingdom of Saudi Arabia	94.43%	The funds' investment objective is to generate returns by investing in equity instruments listed on Tadawul.
GIB Saudi Equity Fund	Kingdom of Saudi Arabia	97.41%	The funds' investment objective is to generate returns by investing in equity instruments listed on Tadawul.
GIB Opportunistic MENA Equity Fund	Kingdom of Saudi Arabia	99.95%	The funds' investment objective is to generate returns by investing in MENA equity instruments.

The Bank neither consolidates the financial assets, liabilities and results of the subsidiary, nor its investments in GIB Opportunistic Saudi Equity Fund, GIB Saudi Equity Fund, and GIB Opportunistic MENA 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. Basis of preparation

a) Statement of Compliance

The financial statements of the Bank have been prepared;

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

b) Basis of measurement and presentation

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

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

c) Functional and presentation currency

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

d) Period of financial statements

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

Notes to the Financial Statements

At 31st December 2019

2. Basis of preparation (continued)

e) Critical accounting judgements, estimates and assumptions

The preparation of the financial statements in conformity with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by SOCPA, requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Such judgements, estimates, and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

i) Impairment losses on financial assets

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

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

- The Bank's internal credit grading model, which assigns Probability of Default (PD) to the individual grades
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime ECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

ii) Fair value Measurement

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

iii) Classification of investments at amortised cost

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

iv) Depreciation and amortisation

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

v) Going concern

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

Notes to the Financial Statements

At 31st December 2019

3. Summary of significant accounting policies

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

a) Adoption of new standards

Effective its inception, the Bank has adopted the accounting standard on leases, the impact of the adoption of this standard is explained below:

IFRS 16: Leases

IFRS 16 requires lessees to recognise most leases on their balance sheet as lease liabilities, with the corresponding right of use assets. At inception of a contract, the Bank assesses whether a 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.

b) Classification of financial assets

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

Financial Asset at amortised cost

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

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

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

Financial Asset at FVOCI

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

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

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

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

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

Financial Asset at FVTPL

All other financial assets are classified as measured at FVTPL.

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

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

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

Notes to the Financial Statements
At 31st December 2019

3. Summary of significant accounting policies (continued)

b) Classification of financial assets

Business model assessment (continued)

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank change the classification of the remaining financial assets held in that business model.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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

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

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

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

Designation at fair value through profit or loss

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

c) Classification of financial liabilities

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

d) Derecognition

- **Financial assets**

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

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

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

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

Notes to the Financial Statements
At 31st December 2019

3. Summary of significant accounting policies (continued)

d) Derecognition (continued)

- **Financial assets** (continued)

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

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

- **Financial liabilities**

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

e) Modifications of financial assets and financial liabilities

- **Financial assets**

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised, and a new financial asset is recognized at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

- **Financial liabilities**

The Bank derecognises a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

f) Impairment

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

i) financial assets that are debt instruments;
ii) financial guarantee contracts issued; and
iii) loan commitments issued.

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

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

b. other financial instruments on which credit risk has not increased significantly since their initial recognition

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

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Notes to the Financial Statements

At 31st December 2019

3. Summary of significant accounting policies (continued)

f) Impairment (continued)

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

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

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

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

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

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

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

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

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision

Notes to the Financial Statements

At 31st December 2019

3. Summary of significant accounting policies (continued)

Write-off

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

g) Financial guarantees and loan commitments

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

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

h) Revenue / expenses recognition

Special commission income and expenses

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

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

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

Measurement of amortised cost and special commission income

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

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

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

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

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

i) Rendering of services

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

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

Notes to the Financial Statements
At 31st December 2019

3. Summary of significant accounting policies (continued)

j) Derivative financial instruments and hedge accounting

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

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

i) Derivatives held for trading

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

ii) Embedded derivatives

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

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

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

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

iii) Hedge Accounting

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

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

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

Fair Value Hedges

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

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

Notes to the Financial Statements

At 31st December 2019

3. Summary of significant accounting policies (continued)

k) Foreign Currencies

The financial statements are presented in Saudi Arabian Riyals.

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the spot rates prevailing at transaction dates. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at rates of exchange prevailing at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year adjusted for the effective interest rate and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. All differences arising on non-trading activities are taken to other non-operating income in the statement of income.

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

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

l) Offsetting financial instruments

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

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

m) Other revenue / expenses recognition

- **Exchange income/ (loss)**

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

- **Fees and Commission income**

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

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

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

- **Dividend income**

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

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

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

n) Sale and repurchase agreements

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

Notes to the Financial Statements

At 31st December 2019

3. Summary of significant accounting policies (continued)

o) Settlement date accounting

All regular-way purchases and sales of financial assets are recognised 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 marketplace.

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

p) Fair value measurement

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

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

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

The principal or the most advantageous market must be accessible to by the Bank.

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements
At 31st December 2019

3. Summary of significant accounting policies (continued)

f) Fair value measurement (continued)

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

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

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

q) Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a periodic basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers or based on housing price indices.

Collateral repossessed

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

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

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

r) Property and equipment

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

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

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

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

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

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

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

Notes to the Financial Statements

At 31st December 2019

3. Summary of significant accounting policies (continued)

s) Intangible assets

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

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

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

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

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

t) Provisions

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

Provisions for liabilities and charges

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

u) Accounting for leases

Right of Use Asset / Lease Liabilities

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

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

Right of Use Assets

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

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

3. Summary of significant accounting policies (continued)

u) Accounting for leases (continued)

Lease Liability

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

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

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

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

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

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

v) Cash and cash equivalents

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

w) End of service benefits

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

x) 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 profit or loss. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to zakat.

y) 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, as follows:

High level definitions of non-commission-based products

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

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

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

Notes to the Financial Statements

At 31st December 2019

4. Cash and balances with SAMA

	31st December 2019 SAR (thousands)
Cash in hand	**43,814**
Statutory deposits (note 4.1)	**988,461**
Current account	**10,566**
Money market placements with SAMA (note 4.2)	**7,201,000**
Total	**8,243,841**

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

4.2 Money market placements with SAMA having a maturity date of 1st January 2020.

5. Due from banks and other financial institutions

	31st December 2019 SAR (thousands)
Current accounts	**268,691**
Money market placements	**1,179,396**
Total	**1,448,087**

6. Investments, net

a) Investment securities are classified as follows:

	2019 SAR (thousands)
Investment at amortised cost	**2,189,046**
Investments at FVOCI – Equity investments	**381,079**
Investment at FVTPL– Equity investments	**203,621**
Total	**2,773,746**

Note1: the following table shows reconciliations from the opening to the closing balance of the loss allowance by class of financial instruments

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

Notes to the Financial Statements
At 31st December 2019

6. Summary of significant accounting policies (continued)

b) Investments by type of securities

	Domestic SAR (thousands)
Fixed-rate securities	**1,764,665**
Floating-rate securities	**427,758**
Equities	**584,700**
Less: Allowance for Impairment	**(3,377)**
Total	**2,773,746**

The impairment relates to debt instruments carried at amortised cost only.

c) The analysis of the composition of investments is as follows.

	2019		
	Quoted SAR (thousands)	Unquoted SAR (thousands)	Total SAR (thousands)
Fixed-rate securities	-	1,764,665	1,764,665
Floating-rate securities	-	427,758	427,758
Equities	576,724	7,976	584,700
	576,724	**2,200,399**	**2,777,123**
Allowance for impairment	-	(3,377)	(3,377)
Investments, net	**576,724**	**2,197,022**	**2,773,746**

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

	2019 SAR (thousands)
Government and quasi government	**1,664,073**
Corporate	**793,934**
Banks and other financial institutions	**319,116**
Allowance for impairment	**(3,377)**
Total	**2,773,746**

7. Loans and Advances – Net

	31st December 2019 SAR (thousands)			
	Overdrafts	Commercial loans	Retail loans	Total
Performing loans and advances	326,134	16,067,330	494,437	16,887,901
Non-performing loans and advances	-	1,400,588	620	1,401,208
Gross loans and advances	326,134	17,467,918	495,057	18,289,109
Provisions for impairment	(826)	(790,081)	(7,760)	(798,667)
Loans and advances, net	**325,308**	**16,677,837**	**487,297**	**17,490,442**

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

Notes to the Financial Statements
At 31st December 2019

7. Loans and Advances – Net (continued)

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

	SAR (thousands)			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at beginning of period	**52,246**	**113,370**	**1,525,093**	**1,690,709**
Transfers during the period				
Transfer to Stage 1	1,100	(1,100)	-	-
Transfer to Stage 2	(4,561)	4,561	-	-
Transfer to Stage 3	-	(58,263)	58,263	-
Total transfers during the period	(3,461)	(54,802)	58,263	-
Net charge for the period	4,378	15,522	101,941	121,841
Write-offs	-	-	(1,013,883)	(1,013,883)
Balance as at 31st Dec 2019	**53,163**	**74,090**	**671,414**	**798,667**

8. Property and equipment, net

	Leasehold improvements	Furniture, equipment and vehicles	Work in progress	Total 2019
	SAR (thousands)			
Cost				
Balance at beginning of the period	77,703	119,484	10,146	207,333
Additions	1,783	4,403	27,737	33,923
Transfers	428	5,616	(6,044)	-
Disposals	(16,900)	-	-	(16,900)
Balance at end of the period	**63,014**	**129,503**	**31,839**	**224,356**
Accumulated depreciation				
Balance at beginning of the period	44,621	90,392	-	135,013
Charge for the period	8,224	16,563	-	24,787
Write-off	(12,127)	-	-	(12,127)
Balance at end of the period	**40,718**	**106,955**	-	**147,673**
Carrying amount	**22,296**	**22,548**	**31,839**	**76,683**

9. Intangible assets

	Work in progress	Software	31 December 2019
	SAR (thousands)		
Cost			
Balance at beginning of the period	9,038	95,859	104,897
Additions	20,096	1,337	21,433
Transfers	(18,044)	18,044	-
Balance at end of the period	**11,090**	**115,240**	**126,330**
Accumulated amortisation			
Balance at beginning of the period	-	58,450	58,450
Charge for the year	-	16,997	16,997
Balance at end of the period	-	**75,447**	**75,447**
Carrying amount	**11,090**	**39,793**	**50,883**

Notes to the Financial Statements

At 31st December 2019

10. Other assets

	31st December 2019 SAR (thousands)
Accrued interest on derivatives	**39,415**
Prepayments	**39,895**
Due from related parties	**53,103**
Outward Clearing Cheques	**5,506**
VAT Receivable	**1,754**
Others	**6,484**
Total	**146,157**

11. Leases

a) Right-of-use assets

Movement in right-of-use assets

	31st December 2019 SAR (thousands)
Balance at 3rd April 2019	**75,377**
Additions	**182,716**
Depreciation	**(22,112)**
Balance at the end of the period	**235,981**

b) Interest expense recognised in profit or loss against lease liabilities amounted to SAR 2.08 million.

12. Derivatives

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

a) Swaps

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

b) Forwards and futures

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

c) Forward rate agreements

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

d) Options

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

Held for trading purposes

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

Notes to the Financial Statements

At 31st December 2019

12. Derivatives (continued)

Held for hedging purposes

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

The Board of Directors has established levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors has established the level of commission rate risk by setting limits on commission rate gaps for stipulated periods. Asset and liability commission rate gaps are reviewed on a periodic basis and hedging strategies are used to reduce commission rate gap within the established limits.

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

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

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

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

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

Notes to the Financial Statements

At 31st December 2019

12. Derivatives (continued)

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

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

13. Due to banks and other financial institutions

	31st December 2019 SAR (thousands)
Current accounts	**26,460**
Money market deposits	**552,009**
Total	**578,469**

14. Customers' deposits

	31st December 2019 SAR (thousands)
Demand deposits	**7,592,423**
Saving accounts	**90,049**
Time deposits	**13,773,492**
Others	**260,794**
Total	**21,716,758**

The above include foreign currency deposits as follows:

	31st December 2019 SAR (thousands)
Demand	**468,278**
Time	**618,227**
Others	**18,110**
Total	**1,104,615**

Time deposits include deposits taken under noncommission based contracts, of SAR 13,043 million.

15. Other liabilities

	31st December 2019 SAR (thousands)
Accrued interest derivatives	18,990
Withholding tax payables	8,258
Due to related parties	20,803
Accrued expenses	61,130
VAT payable	1,065
End of service benefits	45,204
Provision against off balance sheet exposures	174,209
Provision for zakat	2,017
Deferred LC/LG fees	26,121
Others	66,595
Total	**424,392**

Notes to the Financial Statements

At 31st December 2019

16. Share capital

The authorised, issued and fully paid share capital at 31st December 2019 comprised 750 million shares of SAR 10 each. Basic and diluted earnings per share for the period ended 31st December 2019 is calculated on a weighted average basis by dividing the net income for the period by 750 million shares.

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

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

17. Statutory reserve

In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid-up capital of the Bank. Accordingly, SAR 1,753 thousand has been transferred from 2019 net income. The statutory reserve is not currently available for distribution.

18. Commitments and contingencies

a) Legal proceedings

As at 31st December 2019, there were no significant legal proceedings outstanding against the Bank.

b) Credit related commitments and contingencies

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

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

Documentary letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are generally collateralised by the underlying shipments of goods to which they relate, and therefore have significantly less risk.

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be presented before being reimbursed by the customers.

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

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

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

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

Notes to the Financial Statements

At 31st December 2019

18. Commitments and contingencies (continued)

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

	31st December 2019 SAR (thousands)
Corporate	10,053,696
Banks and other financial institutions	1,329,047
Total	**11,382,743**

19. Special commission income and expense

	31st December 2019 SAR (thousands)
Special commission income	
Investments	57,854
Due from banks and other financial institutions	125,738
Loans and advances	721,187
Total	**904,779**

	31st December 2019 SAR (thousands)
Special commission expense	
Due to banks and other financial institutions	8,116
Lease liabilities	2,077
Customers' deposits	494,939
Total	**505,132**
Special commission income, net	**399,647**

20. Fee and commission income and expenses

	31st December 2019 SAR (thousands)
Fees and commission income	
Letters of credit	18,516
Letters of guarantee	27,049
Other banking services	16,287
	61,852
Fees and commission expenses	
Bank charges and commission	2,241
Other fees and commission expenses	1,362
	3,603
Fees and commission income, net	**58,249**

Notes to the Financial Statements

At 31st December 2019

21. Salaries and employee related expenses

The following table summarises the Bank's employee categories defined in accordance with SAMA's rules on compensation practices and includes the total amounts of fixed and variable compensation paid to employees during the year ended 31st December 2019, and the forms of such payments.

	2019			
Category	**Number of employees**	**Fixed compensation SAR (thousands)**	**Variable compensation SAR (thousands)**	**Total SAR (thousands)**
Senior executives requiring SAMA no objection	18	16,923	78	17,001
Employees engaged in risk taking activities	95	38,418	128	38,546
Employees engaged in control functions	132	26,502	829	27,331
Other employees	323	43,261	2,157	45,418
Sub-Total	568	125,104	3,192	128,296
Outsourced employees	150	14,180	-	14,180
	718	139,284	3,192	142,476
Variable compensation accrued				24,749
Other employee related benefits				12,854
Total Salaries and employee related expenses per financial statements				180,079

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

22. Other general and administrative expenses

	2019 SAR (thousands)
Repair and maintenance	28,893
Advertising	16,473
Managed services	11,936
Legal, consultancy & statutory fees	13,602
Communication & data information services	9,274
VAT expenses	8,544
Depositors' protection scheme expenses	6,365
Directors' remuneration (note 30)	4,062
Others	23,459
Total	122,608

23. Zakat

The provision of Zakat liability is estimated based on the results of operations of the Bank for the period ended and the financial position at 31st December 2019. The Bank has accrued zakat liability of SAR 2,017 thousand for the period ended 31st December 2019.

Notes to the Financial Statements

At 31st December 2019

24. Cash and cash equivalents

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

	31st December 2019 SAR (thousands)
Cash and balances with SAMA (excluding statutory deposit)	7,255,380
Due from banks and other financial institutions with original maturities of three months or less	1,418,069
Total	**8,673,449**

25. Employee Benefit Obligation

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

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

	2019 SAR (thousands)
Defined benefit obligation at the beginning of the period	41,261
Charge for the year	8,422
Interest cost	1,993
Benefits paid	(3,114)
Unrecognised actuarial gain	(3,358)
Defined benefit obligation at the end of the period	**45,204**

a) Charge for the period

	2019 SAR (thousands)
Current service cost	8,422
Interest cost	1,993
Past service cost	-
	10,415

b) Re-measurement recognised in Other comprehensive income

	2019 SAR (thousands)
Gain from change in financial assumptions	28
Gain from change in demographic assumptions	5
Gain from change in experience assumptions	3,325
	3,358

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

	2019
Discount rate	3.05%
Expected rate of salary increase	2.65%
Normal retirement age	60 years

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

Notes to the Financial Statements
At 31st December 2019

25. Employee Benefit Obligation (continued)

d) Sensitivity of actuarial assumptions

The table below illustrates the sensitivity of the Defined Benefit Obligation valuation as at 31st December 2019 to the discount rate (3.05%), salary escalation rate (2.65%), withdrawal assumptions and mortality rates.

2019	SAR (thousands)		
	Impact on defined benefit obligation		
Base Scenario	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.5%	42,836	47,783
Expected rate of salary increase	0.5%	47,781	42,817
Normal retirement age	1 year	45,241	45,186

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

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

	2019 SAR (thousands)
Within the next 12 months (next annual reporting period)	3,066
Between 2 and 5 years	15,115
Beyond 5 years up to 10 years	31,428
Total expected payments	**49,609**

The average duration of the defined benefits plan obligation at 31st December 2019 is 10.92 years.

26. Financial Risk Management

a) Credit Risk

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

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

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

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

Notes to the Financial Statements

At 31st December 2019

26. Financial Risk Management (continued)

a) Credit Risk (continued)

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

The Bank seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business. It also takes security when appropriate. The Bank also seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

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

The debt securities included in the investment portfolio are mainly sovereign risk. Analysis of investments by counterparty is provided in note 6. For details of the composition of loans and advances refer to note 7. Information on credit risk relating to derivative instruments is provided in note 11 and for commitments and contingencies in note 17.

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

a) Geographical concentration

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

Notes to the Financial Statements

At 31st December 2019

26. Financial Risk Management (continued)

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

a) Geographical concentration (continued)

	2019 SAR (thousands)					
	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Total
Customers' deposits						
Demand	7,592,423	-	-	-	-	7,592,423
Time	12,760,849	-	1,012,643	-	-	13,773,492
Saving	90,049	-	-	-	-	90,049
Others	260,794	-	-	-	-	260,794
Lease liabilities	224,542					224,542
Other liabilities	146,715	20,803	-	-	-	167,518
Total liabilities	21,283,476	566,799	1,012,717	34	-	22,798,448
Commitments and contingencies						
Letters of credit	1,554,096	65,847	242	-	-	1,620,185
Letters of guarantee	4,052,553	2,733,814	384,660	699,036	326,039	8,196,102
Acceptances	330,939	-	-	-	-	330,939
Irrevocable commitments to extend credit	1,235,517	-	-	-	-	1,235,517

Maximum Credit exposure (stated at credit equivalent amounts)

Commitments and contingencies						
Letters of credit	311,330	13,169	48	-	-	324,547
Letters of guarantee	2,414,695	1,368,665	192,330	349,725	163,019	4,488,434
Acceptances	316,206	14,733	-	-	-	330,939
Irrevocable commitments to extend credit	617,759	-	-	-	-	617,759

Notes to the Financial Statements

At 31st December 2019

26. Financial Risk Management (continued)

26.2 Credit quality analysis

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

	31st December 2019			
	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
	SAR (thousands)			
Loans and advances to customers at amortised cost				
Grades 1-4: Low – fair risk	10,508,101	51,283	-	10,559,384
Grades 5-7: Watch list	5,545,657	1,096,686	159,069	6,801,412
Grades 8: Substandard	-	-	322,467	322,467
Grades 9: Doubtful	-	-	584,030	584,030
Grades 10: Loss	-	-	21,816	21,816
Carrying amount	16,053,758	1,147,969	1,087,382	18,289,109

	31st December 2019			
	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
	SAR (thousands)			
Debt investment securities at amortised cost				
Grades 1-4: Low – fair risk	2,151,760	-	-	2,151,760
Grades 5-7: Watch list	-	37,286	-	37,286
Carrying amount	2,151,760	37,286	-	2,189,046

Amounts arising from ECL – Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and taking into consideration both internal and external indicators and expert credit assessment and inclusion of forward-looking information.

The Bank considers all counterparties internally rated 6+ and below to be significantly deteriorated, as they are below the minimum credit quality thresholds specified in the Bank's credit policy. In addition, the Bank also considers all counterparties internally rated 2 and above, between 2- and 3+, between 3 and 4+, and 4 and below, to be significantly deteriorated where they have been downgraded 6 notches, 5 notches, 4 notches and 3 notches respectively since initial recognition, and where the current pricing has not been adjusted to reflect the new risk profile of the counterparty.

Debt investment securities are considered to have low credit risk when their credit risk rating is equivalent to an investment grade rating or a debt investment security with similar credit risk characteristics.

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

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

Notes to the Financial Statements

At 31st December 2019

26. Financial Risk Management (continued)

26.2 Credit quality analysis (continued)

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

Non-retail exposures	Retail exposures	All exposures
1- Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality management, and senior management changes. **2-** Data from credit reference agencies, press articles, changes in external credit ratings **3-** Quoted bond and credit default swap (CDS) prices for the borrower where available **4-** Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities	**5-** Internally collected data and customer behavior – e.g. utilisation of credit card facilities **6-** Affordability metrics **7-** External data from credit reference agencies including industry-standard credit scores	**8-** Payment record – this includes overdue status as well as a range of variables about payment ratios **9-** Utilisation of the granted limit **10-** Requests for and granting of forbearance **11-** Existing and forecast changes in business, financial and economic conditions

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

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

Definition of 'Default'

The Bank considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as liquidating collateral; or the borrower is past due more than 90 days on any credit obligation to the Bank. In assessing whether a borrower is in default, the Bank considers both qualitative factors such as breaches of covenants and quantitative factors such as overdue status and non-payment on another obligation of the same issuer to the Bank.

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

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the Bank Market Risk Committee and economic experts and consideration of a variety of external actual and forecast information, the Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the Kingdom and selected private-sector and academic forecasters.

Notes to the Financial Statements

At 31st December 2019

26. Financial Risk Management (continued)

26.2 Credit quality analysis (continued)

Incorporation of forward-looking information (continued)

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

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at 31st December 2019 included the following ranges of key indicators.

	December 2019		
Saudi Arabia	**2019**	**2020**	**2021**
Base 50%	**Year 1**	**Year 2**	**Year 3**
GDP (%)	**2.60**	**2.70**	**2.70**
Surplus (% of GDP)	**(4.60)**	**(4.20)**	**(4.20)**
Positive 15%			
GDP (%)	**2.60**	**3.17**	**3.17**
Surplus (% of GDP)	**(4.40)**	**(3.72)**	**(3.72)**
Negative 35%			
GDP (%)	**1.37**	**1.06**	**1.06**
Surplus (% of GDP)	**(13.98)**	**(9.35)**	**(9.35)**

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

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

	Probability	Debt instrument at Amortised Cost	Loans and advances	Financial guarantees	Letter of credit	Undrawn commitment
Base	**50%**	**2,840**	**86,141**	**10,173**	**4,388**	**553**
Positive	**15%**	**2,806**	**84,924**	**10,015**	**4,318**	**553**
Negative	**35%**	**4,388**	**137,605**	**15,543**	**7,734**	**1,105**

Measurement of ECL

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

PD estimates are estimates at a certain date and are calculated using Standard & Poor's recovery studies data after consideration of the contractual maturities of exposures and estimated prepayment rates and are derived using the Vasicek model.

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

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

Notes to the Financial Statements

At 31st December 2019

26. Financial Risk Management (continued)

26.2 Credit quality analysis (continued)

Measurement of ECL (continued)

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amounts allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD is converted to balance sheet equivalents.

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

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

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

Credit-impaired loans

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

Modified financial assets

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

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

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

December 2019 - SAR (thousands)	Commercial Loans	Retail Loans	Total
From 1 day to 30 days	504,664	26,813	531,477
Total Loans & advances	**504,664**	**26,813**	**531,477**

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

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

Notes to the Financial Statements

At 31st December 2019

26. Financial Risk Management (continued)

26.2 Credit quality analysis (continued)

Collateral

The banks in the ordinary course of lending activities hold collaterals as security to mitigate credit risk in the loans and advances. These collaterals mostly include time, demand, and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. The collaterals are held mainly against commercial and consumer loans and are managed against relevant exposures at their net realisable values. For financial assets that are credit impaired at the reporting period, quantitative information about the collateral held as security is needed to the extent that such collateral mitigates credit risk.

The amount of collateral held as security for loans that are credit impaired as at 31st December 2019 are as follows:

	2019 SAR (thousands)
Less than 50%	23,432
51-70%	-
More than 70%	100,867
Total	**124,299**

27. Market risk

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

a) Market risk-trading book

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

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

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

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

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

The Bank's VaR related information for the period ended 31st December 2019 is as under.

	2019 SAR (thousands)			
	Foreign Exchange Rate	Special Equity commission risk	price risk	Overall risk
VAR as at 31st December 2019	29	0	8,300	8,329
Average VAR for 2019	73	1.1	12,631	12,705

b) Market risk non-trading or banking book

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

Notes to the Financial Statements

At 31st December 2019

27. Market risk (continued)

i) Special commission rate risk

Special commission rate risk arises from the possibility that the changes in commission rates will affect either the fair values or the future cash flows of the financial instruments. The Board has established commission rate gap limits for stipulated periods. The bank monitors positions daily and uses hedging strategies to ensure maintenance of positions within the established gap limits.

The following table depicts the sensitivity to a reasonable possible change in commission rates, with other variables held constant, on the Bank's statement of income or equity. The sensitivity of the income is the effect of the assumed changes in commission rates on the net commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at 31st December 2019, including the effect of hedging instruments. All the banking book exposures are monitored and analysed in US Dollars concentration and change sensitivities are disclosed in SAR thousands. Sensitivity of special commission income for +1/-1 increase in the basis of the US Dollar is SAR 63 million and SAR (63) million respectively.

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

The Bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market commission rates on its financial position and cash flows.

The Board sets limits on the level of mismatch of commission rate reprising that may be undertaken, which is monitored daily by bank Treasury.

The table below summarises the Bank's exposure to commission rate risks. Included in the table are the Bank's financial instruments at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

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

SAR (thousands) 2019	Within 3 Months	3-12 months	1-5 Years	Over 5 years	Non-commission bearing	Total
Assets						
Cash and balances with SAMA						
Cash in hand	-	-	-	-	43,814	43,814
Balances with SAMA	7,201,000	-	-	-	999,027	8,200,027
Due from Banks and other financial institutions						
current accounts	-	-	-	-	268,691	268,691
money market placements	1,149,378	-	30,018	-	-	1,179,396
Investments, net						
Held as FVTPL	-	-	-	-	203,621	203,621
Held at amortised cost	148,948	40,000	1,347,766	652,332	-	2,189,046
Held as FVOCI	-	-	-	-	381,079	381,079
Positive fair value of derivatives						
Held for trading	-	59	19,956	139,408	-	159,423
Held as fair value hedges	-	560	976	-	-	1,536
Loans and advances, net						
Over draft	325,308	-	-	-	-	325,308
Credit cards	10,588	-	-	-	-	10,588
Consumer loans	54,074	1,781	420,033	821	-	476,709
Commercial loans	15,548,100	698,454	431,283	-	-	16,677,837
Property and equipment	-	-	-	-	76,683	76,683
Intangible assets	-	-	-	-	50,883	50,883
Right of use assets	-	-	-	-	235,981	235,981
Other assets	-	-	-	-	146,157	146,157
Total assets	**24,437,396**	**740,854**	**2,250,032**	**792,561**	**2,405,936**	**30,626,779**

Notes to the Financial Statements

At 31st December 2019

27. Market risk (continued)

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

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

SAR (thousands) 2019	Within 3 Months	3-12 months	1-5 Years	Over 5 years	Non-commission bearing	Total
Liabilities						
Due to banks and other financial institutions						
Current accounts	-	-	-	-	26,460	26,460
Money market deposits	502,009	50,000	-	-	-	552,009
Customer deposits						
Demand	-	-	-	-	7,592,423	7,592,423
Saving	-	-	-	-	90,049	90,049
Time	11,968,364	1,733,744	71,384	-	-	13,773,492
Other	-	-	-	-	260,794	260,794
Negative fair value of derivatives						
Held for trading	754	23	19,843	140,878	-	161,498
Held as fair value hedges	-	240	1,111	12,890	-	14,241
Lease liabilities		3,805	55,491	165,246	-	224,542
Other liabilities	-	-	-	-	424,392	424,392
Share holders equity	-	-	-	-	7,506,879	7,506,879
Total Liabilities & shareholders' equity	12,471,127	1,787,812	147,829	319,014	15,900,997	30,626,779
commission rate sensitivity - On statement of financial position	11,966,269	(1,046,958)	2,102,203	492,227	(13,495,061)	-
commission rate sensitivity - Off statement of financial position	2,538,045	5,305,415	3,493,623	45,660	11,382,743	22,784,166
Total commission rate sensitivity gap	14,504,314	4,258,457	5,595,826	537,887	(2,112,318)	22,784,166
Cumulative commission rate sensitivity gap	14,545,705	18,763,489	24,358,596	24,877,804	22,765,486	-

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

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

ii) CURRENCY RISK

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

The table below shows the currencies to which the Bank has a significant exposure as at 31st December 2019 on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonable possible movement of the currency rate against SAR, with all other variables held constant, on the statement of income (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity. A positive effect shows a potential increase in the statement of income; whereas a negative effect shows a potential net reduction in the statement of income.

Currency Exposures As at 31st December 2019	Change in currency rate in %	Effect on net income SAR (thousands)
USD	+5/-5	311 / (311)
EURO	+5/-5	4,471 / (4,471)
GBP	+5/-5	11 / (11)
JPY	+5/-5	4 / (4)

Notes to the Financial Statements
At 31st December 2019

27. Market risk (continued)

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

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

iii) Currency position

The Bank manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. At the end of the period, the Bank had the following significant net exposures denominated in foreign currencies:

	2019 SAR (thousands) Long/(short)
US Dollar	6,216
Japanese Yen	89,411
Euro	212
Pound Sterling	84
Others	2,116
Total	**98,039**

iv) EQUITY PRICE RISK

Equity risk refers to the risk of decrease in fair values of equities in the Bank's non-trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks.

The effect on the Bank's equity investments held as FVOCI due to reasonable possible change in equity indices, with all other variables held constant is as follows:

	31st December 2019	
Market Indices	**Change in Equity price %**	**Effect in SAR (millions)**
Tadawul	-5%	(18.66)

28. Liquidity risk

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

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

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

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

Notes to the Financial Statements

At 31st December 2019

28. Liquidity risk (continued)

Analysis of Financial Liabilities by remaining undiscounted contractual Maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31st December 2019 based on contractual undiscounted repayment obligations. As special commission payments up to contractual maturity are included in the table, totals do not match with the statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the balance sheet date to the contractual maturity date and do not take into account the effective expected maturities. The Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not affect the expected cash flows indicated by the Bank's deposit retention history.

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

29. Fair values of financial instruments

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

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

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

Determination of fair value and fair value hierarchy

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

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

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

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

Notes to the Financial Statements

At 31st December 2019

29. Fair values of financial instruments (continued)

Carrying amounts and fair value

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

		Fair value SAR (thousands)			
	Carrying value	**Level 1**	**Level 2**	**Level 3**	**Total**
At 31st December 2019					
Financial assets measured at fair value					
Investments at FVTOCI	**381,079**	**373,103**	-	**7,976**	**381,079**
Investments at FVTPL	**203,621**	**203,621**	-	-	**203,621**
Positive fair value of derivative financial instruments	**160,959**	-	**160,959**	-	**160,959**
Financial assets not measured at fair value					
Investments at amortised cost	**2,189,046**	-	**148,918**	**2,147,924**	**2,296,842**
Loans and advances, net	**17,490,442**	-	-	**17,451,048**	**17,451,048**
Cash and balance with SAMA	**8,243,841**			**8,243,841**	**8,243,841**
Due from banks and other financial institution	**1,448,087**			**1,448,087**	**1,448,087**
Other financial assets	**98,024**			**98,024**	**98,024**

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

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

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

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

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

Notes to the Financial Statements

At 31st December 2019

29. Fair values of financial instruments (continued)

Reconciliation of Level 3 fair values

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

	Equity securities SAR (thousands)
Balance at 3rd April 2019	**8,594**
Gain included in OCI	
Net change in fair value (unrealised)	**(618)**
Balance at 31st December 2019	**7,976**

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

30. Related party transactions

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

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

	2019 SAR (thousands)
Major shareholder and their affiliates:	
Investments	**203,621**
Due from banks and other financial institutions	**613,993**
Due to banks and other financial institutions	**576,262**
Customers' deposits	**3,276,366**
Derivatives	**11,294,939**
Commitments and contingencies	**1,059,585**
Other assets	**92,518**
Other liabilities	**39,793**

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

	2019 SAR (thousands)
Special commission income	**6,191**
Special commission expense	**43,519**
Fees and commission income and expense, net	**328**
Other income	**2,472**

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

	2019 SAR (thousands)
Short-term employee benefits	**517**
Post-employment benefits	**147**
Directors remuneration	**4,062**

Notes to the Financial Statements

At 31st December 2019

31. Capital Adequacy

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

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

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

	31st December 2019 SAR (thousands)
Risk-weighted exposure	
Credit risk	**24,422,063**
Operational risk	**761,032**
Market risk	**420,281**
Total risk-weighted exposure	**25,603,376**
Regulatory capital base	
Tier I capital	**7,506,879**
Tier II capital	**130,630**
Total regulatory capital base	**7,637,509**
Capital adequacy ratios	
Tier I ratio	**29.32%**
Total ratio	**29.83%**

32. Comparative figures

No comparative figures are disclosed being the Bank's first year of operations.

33. Subsequent event

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread globally, to including the Kingdom of Saudi Arabia, 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 31st December 2020.

34. Board of Directors' approval

The financial statements were authorised for issue by the Board of Directors on 29th Jumada al-thani 1441H (corresponding to 23rd February 2020).

Basel 3 Pillar 3 Disclosures

As at 31st December 2019

Contents

Basel 3 Pillar 3 Disclosures

As at 31st December 2019

1. KM1: Key metrics

		a	b	c
	SAR (thousands)	31-Dec-2019	30-Sep-2019	30-Jun-2019
	Available capital (amounts)			
1	Common Equity Tier 1 (CET1)	7,506,879	7,486,311	7,499,493
1a	Fully loaded ECL accounting model			
2	Tier 1	7,506,879	7,486,311	7,499,493
2a	Fully loaded ECL accounting model Tier 1			
3	Total capital	7,637,509	7,665,206	7,673,530
3a	Fully loaded ECL accounting model total capital			
	Risk-weighted assets (amounts)			
4	Total risk-weighted assets (RWA)	25,603,376	25,532,787	27,545,477
	Risk-based capital ratios as a percentage of RWA			
5	Common Equity Tier 1 ratio (%)	29.3%	29.3%	27.2%
5a	Fully loaded ECL accounting model Common Equity Tier 1 (%)			
6	Tier 1 ratio (%)	29.3%	29.3%	27.2%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)			
7	Total capital ratio (%)	29.8%	30.0%	27.9%
7a	Fully loaded ECL accounting model total capital ratio (%)			
	Additional CET1 buffer requirements as a percentage of RWA			
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.5%	2.5%	2.5%
9	Countercyclical buffer requirement (%)	0.2%		
10	Bank G-SIB and/or D-SIB additional requirements (%)			
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	2.7%	2.5%	2.5%
12	CET1 available after meeting the bank's minimum capital requirements (%)	18.6%	18.8%	16.7%
	Basel III leverage ratio			
13	Total Basel III leverage ratio exposure measure	36,926,376	34,578,018	40,318,864
14	Basel III leverage ratio (%) (row 2 / row 13)	20.3%	21.7%	18.6%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a / row13)			
	Liquidity Coverage Ratio			
15	Total HQLA	10,090,462	8,389,852	11,803,933
16	Total net cash outflow	3,965,805	2,223,263	1,323,013
17	LCR ratio (%)	254.4%	377.4%	892%
	Net Stable Funding Ratio			
18	Total available stable funding	20,619,425	18,896,703	21,899,118
19	Total required stable funding	12,194,922	10,431,166	11,409,386
20	NSFR ratio	168.8%	181.2%	191.4%

Basel 3 Pillar 3 Disclosures

As at 31st December 2019

2. OVA - Bank risk management approach

a) Business model and risk profile

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

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

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

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

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

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

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

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

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

b) The Risk Governance structure

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

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

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

iii. At management level, the Bank has a dedicated Risk Management function independent of business units headed by the CRO, who reports to the CEO and is a member of the following committees:
    - The Management Committee (MC), chaired by the Chief Executive Officer (CEO), which has the primary responsibility for sanctioning risk taking policies and activities within the tolerance defined by the Board;
    - The Saudi Risk Management Committee (SRMC), chaired by the Chief Risk Officer (CRO), the Assets and Liabilities Committee (ALCO) chaired by the Chief Financial Officer (CFO), and the Operational Risk Committee (ORC) chaired by the CRO which assist the CEO in risk management oversight; and
    - The Credit Committee which is responsible for approving credit applications within their delegated limits; and
    - The Investment Committee which is responsible for reviewing the investment portfolio and approving potential investment opportunities applications within their delegated limits;

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

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2. OVA - Bank risk management approach (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. OVA - Bank risk management approach (continued)

d) The scope and main features of risk measurement systems

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

Risk Capital

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

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

a) Pillar 1 risks including credit risk, market risk and operational risk;
b) Risks not fully covered under Pillar 1 including residual risk arising from the use of credit risk mitigation and securitisation;
c) Pillar 2 risks including concentration risk, interest rate risk in the banking book, liquidity risk, strategic risk and reputation risk; and
d) Risk factors external to the Bank including risks which may arise from the regulatory, economic or business environment and which are not included in the above-mentioned risks.

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

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

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

Risk rating and Scoring Models

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

The internal credit rating system is used throughout the organisation and is inherent in all business decisions relating to the extension of credit. A rating is an estimate that exclusively reflects the quantification of the repayment capacity of the customer, i.e. the risk of customer default. The internal credit rating system also serves as a key input into the Bank's Risk-Adjusted Return on Capital (RAROC) performance measurement system. Ratings reflect a one-year time horizon, thereby requiring each customer to be reviewed and re-rated each year as part of the annual review cycle.

Value at Risk (VaR)

A key element in the Bank's market risk management framework is the estimation of potential future losses that may arise from adverse market movements. The Bank utilises Value-at-Risk (VaR) to estimate such losses. The VaR is derived from quantitative models that use statistical and simulation methods that take account of all market rates and prices that may cause a change in a position's value. These include interest rates, foreign exchange rates and equity prices, their respective volatilities and the correlations between these variables.

The VaR takes account of potential diversification benefits of different positions both within and across different portfolios. Consistent with general market practice, VaR is computed for all financial instruments for which there are readily available daily prices or suitable proxies. VaR is viewed as an effective risk management tool and a valuable addition to the non-statistically based limit structure. It permits a consistent and uniform measurement of market risk across all applicable products and activities. Exposures are monitored against a range of limits both by risk category and portfolio and are regularly reported to and reviewed by senior management and the Board of Directors.

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As at 31st December 2019

2. OVA - Bank risk management approach (continued)

Operational Risk Management Framework

Qualitative and quantitative methodologies and tools are used to identify and assess operational risk and to provide management with information for determining appropriate mitigating factors. These tools include a database of operational risk events categorised according to business lines and operational risk event types; a record of key risk indicators, which can provide an early warning of possible risk; and a risk and control assessment process to analyse business activities and identify operational risks related to those activities. The management of operational risk has a key objective of minimising the impact of losses suffered in the normal course of business (expected losses) and to avoid or reduce the likelihood of suffering a large extreme (unexpected) loss. The operational Risk Management Framework is managed through a workflow system (Risk Nucleus) that ensures that all major operational Risks / losses are appropriately assessed and managed or analysed for further escalation.

e) Process of Risk information reporting provided to the Board and Senior Management

The Bank has developed Management Information (MIS or reports) to facilitate risk awareness and support effective monitoring and decision-making at all levels of the Bank. The MIS helps the Bank's Management to focus on identification of risk issues, develop mitigation plans and monitor to the progress of corrective actions.

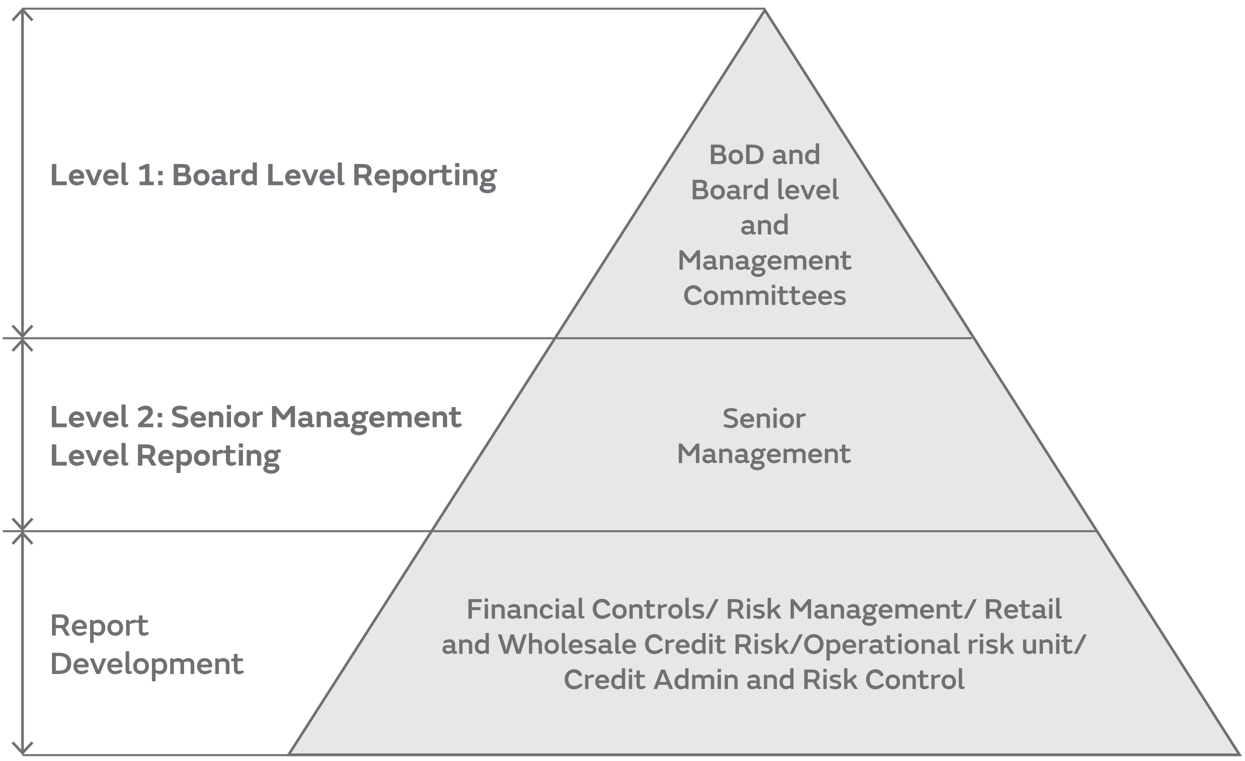
Relevant functions within the Bank produce risk MIS with the support of business or other support units (in terms of providing the necessary data inputs, loss information, results of their risk assessments etc.) for all material risk exposures to enable informed business decision making. In particular, the risk MIS aim to:

- Increase awareness of key risks across the Bank and improve adequacy of underlying control measures;
- Provide early-warning alert mechanisms to ensure that management is made aware of key risk areas of focus;
- Enable management to assess performance against policies, business plans and risk appetite by business, product types etc., including risk-reward considerations; and
- Reinforce GIB's strategic goals through the acceptance of risks consistent with its risk appetite.

The risk MIS are then presented at the following two reporting levels at the Bank:

a) Level 1 reporting to the BoD and its committees; and

b) Level 2 reporting to the Bank's Senior Management.



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2. OVA - Bank risk management approach (continued)

Quarterly Risk Reports are submitted to the Board and the Senior Management encompassing updates on credit exposure by country, credit rating and industry / concentration, liquidity and market risk positions (VaR), operational risk, information security, strategic risks as well as reports on changes to credit approvals or extension processes, credit risk measurement, market risk measurement and risk control measures. The reports provide an overview to ensure that the Bank has an effective risk management framework in place and that all risk controls operating throughout the Bank are in accordance with the regulatory requirements and best practice standards for management of risks in banks.

Risk Appetite monitoring is a critical part of the quarterly reporting to the Board and Senior Management. The Bank and its Board of Directors are committed to manage all material risks to which the Bank is exposed specific to its business model / strategy. The Bank has in place a clearly defined Risk Appetite Policy and a Risk Appetite Statement supporting the Policy. This Policy sets the boundaries to be used in assisting the Bank in the decision-making process and managing the existing risks. Risk Management Monitors Risk Appetite Metrics using Risk reports and Risk Dashboards. In addition to reporting to the Board and senior management, in case of breach in Regulatory Risk Appetite metrics, the Bank has process in place to take immediate steps to follow the thresholds stipulated by SAMA, by virtue of formulating an action plan and communicating the same to SAMA.

The **Integrated Stress Testing** framework is linked to the Risk Appetite and forms an integral part of the monitoring and review process. In addition, the Stress Test results are reviewed in light of the Risk Appetite and tolerance levels. Results are presented to the Board for information and the endorsement of any required corrective action.

f) Qualitative information on stress testing

The Bank has in place an integrated stress testing (IST) framework that assists the Bank in gaining an enhanced understanding of the potential stress impact of material risks and to assist in the development and identification of appropriate actions to improve sustainability and profitability given the Bank's exposure to such risks. This IST exercise is aligned to the Bank's overall risk profile and risk strategy.

The purpose of the Bank's IST is to achieve the following goals:

- Develop stress testing framework which is both, plausible and reasonable:
  - The scenarios are applicable to the Bank and the market in which it operates;
  - The results assist the Bank's Senior Management and the Board to develop the Bank's strategy in response to idiosyncratic stress events or potential adverse changes in the economic and regulatory environment;
  - The scenarios reflect coverage of all material risk across the Bank;
  - Secondary effects of stress scenarios are considered; for instance, the Bank considers how the impact of one stress event (i.e. Reputational Risk) may result in other risk areas (i.e. Liquidity Risk); and
  - The results of stress tests provide a consolidated view of the overall stress testing impact at a Bank-wide level.
- IST framework is closely aligned with the Bank's risk management framework including Internal Capital Adequacy Assessment Process (ICAAP) and Recovery Planning (RP);
- Perform dynamic stress testing with a forward-looking approach covering a minimum period of three years projections;
- Cover both quantitative and qualitative aspects of the potential risks that the Bank foresees:
  - Scenarios built on a logical narrative that describes how and why the event has been assumed to occur; and
  - The financial impact of a stress scenario is calculated on Bank's income statement and balance sheet along with reasonable interpretation of results;

g) The strategies and processes to manage, hedge and mitigate risks

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future business development. The Bank manages its capital structure and makes adjustments to the structure taking account of changes in economic conditions and strategic business plans. The capital structure may be adjusted through the dividend payout or the issue of new shares.

Credit risk mitigation

The Bank uses a variety of credit risk mitigation techniques which contribute to risk diversification and credit protection. The different credit risk mitigation techniques such as collateral, guarantees, credit derivatives, netting agreements and covenants are used to reduce credit risk. Collateral items and guarantees which can be used for credit risk mitigation under the capital adequacy framework are referred to as eligible collateral. Only certain types of collateral and some issuers of guarantees are eligible for preferential risk weights for regulatory capital adequacy purposes.

Furthermore, the collateral management process and the terms in the collateral agreements have to fulfil the SAMA's prescribed minimum requirements (such as procedures for the monitoring of market values, insurance and legal certainty) set out in their capital adequacy regulations.

Moreover, The Bank's policy is to provide credit to its customers based on the strength of the customers' repayment capacity and not on the basis of the strength of the collateral. The Bank would take collateral and guarantees from third parties as a form of additional assurance to mitigate risks.

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2. OVA - Bank risk management approach (continued)

Market risk mitigation

The Bank adopts a Market Risk Management Framework to comply with the Market Risk Strategy that address the policies and guidelines for the key processes underlying the identification, assessment, measurement, monitoring reporting and control of market risk, including:

- Market risk planning and assessment to determine the nature and level of market risk exposure that the Bank is permitted to undertake in light of its strategy and risk appetite and maintains, among other things, a rigorous process of security selection and approval;
- Value-at-risk analysis to provide a comprehensive and consistent measure of the Bank's market risk exposure to adverse market movements;
- Limit management to monitor portfolio concentrations, size of open positions and maximum allowable losses that the Bank could face on those positions;
- Stress testing to assess and manage the risks associated with extreme market movements on the market values of the portfolios;
- Prudent valuation process to determine the mark-to-market or fair values of market risk related financial instruments and derivatives and maintain data quality;
- Pillar 1 and Pillar 2 treatment of market risk to assess and determine the Bank's capital needs in relation to its market risk profile
- Management of Interest rate risk in the Banking Book (IRRBB) that is consistent with the guidance provided by both the BCBS and SAMA, wherein the Bank's risk appetite for IRRBB shall be measured in terms of both Economic Value of Equity (EVE) and Earnings at Risk (EAR);
- Monitoring and comprehensive reporting for on-going management information on The Bank's market risk profile to the BoD and Senior Management.

Liquidity risk mitigation

The Bank 's Liquidity Risk Strategy forms a part of the Bank's overarching risk strategy which requires the Bank to provide oversight of liquidity management and contingent funding strategies to ensure the continued viability and funding of the Bank in a time of crisis and it aspires to:

a) Ensure funds are available in line with business expectations under both normal business conditions and extreme conditions caused by unforeseen events;
b) Manage liquidity prudently to meet both financial commitments and facilitate business expansion;
c) Maintain the flexibility to capitalise on market opportunities in normal business conditions;
d) Avoid raising funds at a premium over the market rate or through the forced sale of assets; and
e) Maintain a diversified deposit base avoiding undue dependence on maturity or depositor concentration.

In order to realise the Bank's Liquidity Risk Strategy, the below best practices are adopted:

a) Liquidity Environment Analysis: On-going monitoring of sources of liquidity risk in order to anticipate and identify any internal or external developments that could lead to a potential adverse liquidity event - Customer deposits form a significant part of the Bank's funding. The Bank places considerable importance on maintaining the stability of both its customer and interbank deposits. The stability of deposits depends on maintaining confidence in the Group's financial strength and financial transparency.;

b) Liquidity Forecasting: Projecting the liquidity profile of the Bank in order to identify future funding needs and gaps;

c) Liquidity Limits: Adhering to regulatory requirements, as well as align to the Bank's internal limits, tolerances and risk appetite - The Bank has established approved limits which restrict the volume of liabilities maturing in the short-term. An independent risk management function monitors the future cash flow maturity profile against approved limits on a daily basis. The cash flows are monitored against limits applying to both daily and cumulative cash flows occurring over a 30 day period. The liquidity limits ensure that the net cash outflows over a 30 day period do not exceed the eligible stock of available liquid resources. The cash flow analysis is also monitored on a weekly basis by the Assets and Liabilities Committee (ALCO).;

d) Liquid Reserves: Maintaining highly marketable assets that can easily be converted to cash in the event of any unforeseen interruption in cash flows;

e) Stress Testing: Conducting stress testing to measure the effect of abnormal market conditions on the liquidity profile of the Bank; and

f) Contingency Planning: Specifying immediate actions for obtaining replacement funding and alternative funding resources in order to be able to generate sufficient liquidity under critical conditions - These plans identify early indicators of stress conditions and prescribe the actions to be taken in the event of a systemic or other crisis, while minimising adverse long-term implications for the Group's business activities.

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3. OV1 - Overview of RWA

		(a)		(c)
		RWA		Minimum capital requirements
	SAR (thousands)	31st Dec 2019	30th Sep 2019	31st Dec 2019
1	Credit risk (excluding counterparty credit risk)	23,861,812	23,420,868	1,915,398
2	Of which: standardised approach (SA)	23,861,812	23,420,868	1,915,398
3	Of which: foundation internal ratings-based (F-IRB) approach			
4	Of which: supervisory slotting approach			
5	Of which: advanced internal ratings-based (A-IRB) approach			
6	Counterparty credit risk (CCR)	309,801	503,344	24,784
7	Of which: standardised approach for counterparty credit risk	309,801	503,344	24,784
8	Of which: Internal Model Method (IMM)			
9	Of which: other CCR			
10	Credit valuation adjustment (CVA)	250,450	328,688	20,036
11	Equity positions under the simple risk weight approach			
12	Equity investments in funds – look-through approach			
13	Equity investments in funds – mandate-based approach			
14	Equity investments in funds – fall-back approach			
15	Settlement risk			
16	Securitisation exposures in banking book			
17	Of which: securitisation internal ratings-based approach (SEC-IRBA)			
18	Of which: securitisation external ratings-based approach (SEC-ERBA), including internal assessment approach (IAA)			
19	Of which: securitisation standardised approach (SEC-SA)			
20	Market risk	420,281	518,855	33,622
21	Of which: standardised approach (SA)	420,281	518,855	33,622
22	Of which: internal model approaches (IMA)			
23	Capital charge for switch between trading book and banking book			
24	Operational risk	761,032	761,032	60,883
25	Amounts below the thresholds for deduction (subject to 250% risk weight)			
26	Floor adjustment	0	0	0
27	**Total** (1 + 6 + 10 + 11 + 12 + 13 + 14 + 15 + 16 + 20 + 23 + 24 + 25 + 26)	25,603,376	25,532,787	2,054,723

Point to note:

(i) Items marked with an asterisk (*) will be applicable only after their respective policy frameworks take effect. Until then, "Not applicable" should be reported in the rows.

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As at 31st December 2019

4. LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

31st December 2019	a	b	c	d	e	f	g
			Carrying values of items:				
SAR (thousands)	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets							
Cash and balances with the Saudi Arabian Monetary Authority (SAMA)	8,243,841	8,243,841	8,243,841				
Due from banks and other financial institutions	1,448,087	1,448,087	1,448,087				
Investments, net	2,773,746	2,777,123	2,573,501			203,622	
Positive fair value of derivative financial instruments	160,959	160,959		160,959			
Loans and advances, net	17,490,442	17,617,695	17,617,695				
Property and equipment, net	76,683	76,683	76,683				
Intangible assets, net	50,883	50,883	50,883				
Right-of-use assets	235,981	235,981	235,981				
Other assets	146,157	146,157	146,157				
Total assets	**30,626,779**	**30,757,409**	**30,392,828**	**160,959**		**203,622**	
Liabilities							
Due to banks and other financial institutions	578,469						578,469
Customers' deposits	21,716,758						21,716,758
Negative fair value of derivative financial instruments	175,739						175,739
Lease liabilities	224,542						224,542
Other liabilities	424,392						424,392
Total liabilities	23,119,900						23,119,900

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5. LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

31st December 2019		a	b	c	d	e
			Items subject to:			
SAR (thousands)		Total	Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	30,757,409	30,392,828		160,959	203,622
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)					
3	Total net amount under regulatory scope of consolidation	30,757,409	30,392,828		160,959	203,622
4	Off-balance sheet amounts	26,142,841	25,735,553		407,288	
5	Differences due to Credit Conversion Factor (CCF)	(19,973,874)	(19,973,874)			
6						
7						
8						
9						
10	Exposure amounts considered for regulatory purposes	36,926,376	36,154,507		568,247	203,622

6. LIA: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

There is no significant difference between carrying value as reported in published financial statements and regulatory exposure amounts.

On-Balance sheet exposure is different from published financial statements with respect to IFRS ECL provisions, it is treated as part of Tier II capital for capital adequacy purposes while it is netted against the asset in the published financial statements. In case of off-Balance sheet, total carrying amount is used in published financial statements while the credit equivalent amounts (after applying conversion factors) are used for regulatory capital adequacy purposes.

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7. CC1: Composition of regulatory capital

	31st December 2019 SAR (thousands)	a Amounts	b Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	7,500,000	
2	Retained earnings	4,834	
3	Accumulated other comprehensive income (and other reserves)	2,045	
4	Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)		
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)		
6	Common Equity Tier 1 capital before regulatory adjustments	7,506,879	
	Common Equity Tier 1 capital: regulatory adjustments		
7	Prudent valuation adjustments		
8	Goodwill (net of related tax liability)		(a) minus (d)
9	Other intangibles other than mortgage servicing rights (net of related tax liability)		(b) minus (e)
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)		
11	Cash flow hedge reserve		
12	Shortfall of provisions to expected losses		
13	Securitisation gain on sale (as set out in paragraph 36 of Basel III securitisation framework25)		
14	Gains and losses due to changes in own credit risk on fair valued liabilities		
15	Defined benefit pension fund net assets		
16	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)		
17	Reciprocal cross-holdings in common equity		
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)		
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)		
20	Mortgage servicing rights (amount above 10% threshold)		(c) minus (f) minus 10% threshold
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)		
22	Amount exceeding the 15% threshold		
23	Of which: significant investments in the common stock of financials		
24	Of which: mortgage servicing rights		
25	Of which: deferred tax assets arising from temporary differences		
26	National specific regulatory adjustments		
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions		
28	Total regulatory adjustments to Common Equity Tier 1		
29	Common Equity Tier 1 capital (CET1)	7,506,879	
	Additional Tier 1 capital: instruments		

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As at 31st December 2019

7. CC1: Composition of regulatory capital (continued)

	31st December 2019 SAR (thousands)	a Amounts	b Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation
30	Directly issued qualifying additional Tier 1 instruments plus related stock surplus		
31	Of which: classified as equity under applicable accounting standards		
32	Of which: classified as liabilities under applicable accounting standards		
33	Directly issued capital instruments subject to phase-out from additional Tier 1		
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)		
35	Of which: instruments issued by subsidiaries subject to phase-out		
36	Additional Tier 1 capital before regulatory adjustments		
	Additional Tier 1 capital: regulatory adjustments		
37	Investments in own additional Tier 1 instruments		
38	Reciprocal cross-holdings in additional Tier 1 instruments		
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)		
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation		
41	National specific regulatory adjustments		
42	Regulatory adjustments applied to additional Tier 1 due to insufficient Tier 2 to cover deductions		
43	Total regulatory adjustments to additional Tier 1 capital		
44	Additional Tier 1 capital (AT1)		
45	Tier 1 capital (T1 = CET1 + AT1)	7,506,879	
	Tier 2 capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus		
47	Directly issued capital instruments subject to phase-out from Tier 2		
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)		
49	Of which: instruments issued by subsidiaries subject to phase-out		
50	Provisions	130,630	
51	**Tier 2 capital before regulatory adjustments**	130,630	
	Tier 2 capital: regulatory adjustments		
52	Investments in own Tier 2 instruments		
53	Reciprocal cross-holdings in Tier 2 instruments and other TLAC liabilities		
54	Investments in the capital and other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)		
54a	Investments in the other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation and where the bank does not own more than 10% of the issued common share capital of the entity: amount previously designated for the 5% threshold but that no longer meets the conditions (for G-SIBs only)		
55	Significant investments in the capital and other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		

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7. CC1: Composition of regulatory capital (continued)

	31st December 2019	a	b
	SAR (thousands)	Amounts	Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation
56	National specific regulatory adjustments		
57	Total regulatory adjustments to Tier 2 capital		
58	Tier 2 capital (T2)	130,630	
59	Total regulatory capital (TC = T1 + T2)	7,637,509	
60	Total risk-weighted assets	25,603,376	
	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	29.3%	
62	Tier 1 (as a percentage of risk-weighted assets)	29.3%	
63	Total capital (as a percentage of risk-weighted assets)	29.8%	
64	Institution-specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets)	2.7%	
65	Of which: capital conservation buffer requirement	2.5%	
66	Of which: bank-specific countercyclical buffer requirement	0.2%	
67	Of which: higher loss absorbency requirement		
68	Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirements	18.6%	
	National minima (if different from Basel III)		
69	National Common Equity Tier 1 minimum ratio (if different from Basel III minimum)		
70	National Tier 1 minimum ratio (if different from Basel III minimum)		
71	National total capital minimum ratio (if different from Basel III minimum)		
	Amounts below the thresholds for deduction (before risk weighting)		
72	Non-significant investments in the capital and other TLAC liabilities of other financial entities		
73	Significant investments in the common stock of financial entities		
74	Mortgage servicing rights (net of related tax liability)		
75	Deferred tax assets arising from temporary differences (net of related tax liability)		
	Applicable caps on the inclusion of provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	130,630	
77	Cap on inclusion of provisions in Tier 2 under standardised approach	320,042	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)		
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach		
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	Current cap on CET1 instruments subject to phase-out arrangements		
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)		
82	Current cap on AT1 instruments subject to phase-out arrangements		
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		
84	Current cap on T2 instruments subject to phase-out arrangements		
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		

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8. CC2 – Reconciliation of regulatory capital to balance sheet

	a	b	c
SAR (thousands)	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	As at 31st Dec 2019	As at 31st Dec 2019	
Assets			
Cash and balances with the Saudi Arabian Monetary Authority (SAMA)	8,243,841	8,243,841	
Due from banks and other financial institutions	1,448,087	1,448,087	
Investments, net	2,773,746	2,777,123	
Positive fair value of derivative financial instruments	160,959	160,959	
Loans and advances, net	17,490,442	17,617,695	
Property and equipment, net	76,683	76,683	
Intangible assets, net	50,883	50,883	
Right-of-use assets	235,981	235,981	
Other assets	146,157	146,157	
Total assets	30,626,779	30,757,409	
Liabilities			
Due to banks and other financial institutions	578,469	578,469	
Customers' deposits	21,716,758	21,716,758	
Negative fair value of derivative financial instruments	175,739	175,739	
Lease liabilities	224,542	224,542	
Other liabilities	424,392	424,392	
Total liabilities	23,119,900	23,119,900	
Shareholders' equity			
Share capital	7,500,000	7,500,000	
Fair value reserve	3,798	3,798	
Retained earnings	3,081	3,081	
Tier II Capital		130,630	
Total shareholders' equity	30,626,779	30,757,409	

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9. CCA: Main features of regulatory capital instruments and of other TLAC-eligible instruments

		a Quantitative / qualitative information
1	Issuer	Gulf International Bank - Saudi Arabia
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA
3	Governing law(s) of the instrument	Kingdom of Saudi Arabia Laws
3a	Means by which enforceability requirement of Section 13 of the TLAC Term Sheet is achieved (for other TLAC-eligible instruments governed by foreign law)	NA
4	Transitional Basel III rules	NA
5	Post-transitional Basel III rules	NA
6	Eligible at solo/group/group and solo	Group
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	7,500,000
9	Par value of instrument	10
10	Accounting classification	Equity
11	Original date of issuance	3-Apr-19
12	Perpetual or dated	Perpetual
13	Original maturity date	No Maturity
14	Issuer call subject to prior supervisory approval	NA
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	NA
	Coupons / dividends	
17	Fixed or floating dividend/coupon	NA
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	NA
21	Existence of step-up or other incentive to redeem	NA
22	Non-cumulative or cumulative	NA
23	Convertible or non-convertible	NA
24	If convertible, conversion trigger(s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Writedown feature	NA
31	If writedown, writedown trigger(s)	NA
32	If writedown, full or partial	NA
33	If writedown, permanent or temporary	NA
34	If temporary write-own, description of writeup mechanism	NA
34a	Type of subordination	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	NA
36	Non-compliant transitioned features	NA
37	If yes, specify non-compliant features	NA

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10. CCyB1 – Geographical distribution of credit exposures used in the countercyclical capital buffer

SAR (thousands)	a	b	c	d	e
		Exposure values and/or risk-weighted assets used in the computation of the countercyclical capital buffer		Bank-specific countercyclical capital buffer rate	Countercyclical buffer amount
Geographical breakdown	Countercyclical capital buffer rate	Exposure values	Risk-weighted assets		
GCC & ME	2.50%	2,108,406	1,377,342		
Europe	1.00%	196,922	60,327		
South E. Asia	2.50%	273	136		
North America	0.00%	359,507	176,695		
Other	2.50%	162,458	81,229		
Sum		2,827,566	1,695,729		
Total		36,926,376	25,603,376	0.2%	3,391

11. LR1 - Summary comparison of accounting assets vs leverage ratio exposure measure

	SAR (thousands)	a
1	Total consolidated assets as per published financial statements	30,626,779
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	
3	Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference	
4	Adjustments for temporary exemption of central bank reserves (if applicable)	
5	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	
6	Adjustments for regular-way purchases and sales of financial assets subject to trade date accounting	
7	Adjustments for eligible cash pooling transactions	
8	Adjustments for derivative financial instruments	407,288
9	Adjustment for securities financing transactions (ie repurchase agreements and similar secured lending)	
10	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off balance sheet exposures)	5,761,679
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	
12	Other adjustments	130,630
13	**Leverage ratio exposure measure**	**36,926,376**

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12. LR2 - Leverage ratio common disclosure

		a
	SAR (thousands)	30th June 2019
On-balance sheet exposures		
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	30,757,409
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 and 2)**	**30,757,409**
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	252,353
5	Add-on amounts for PFE associated with all derivatives transactions	154,935
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	
8	(Exempted CCP leg of client-cleared trade exposures)	
9	Adjusted effective notional amount of written credit derivatives	
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	
11	**Total derivative exposures (sum of rows 4 to 10)**	**407,288**
Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjustment for sale accounting transactions	
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	
14	CCR exposure for SFT assets	
15	Agent transaction exposures	
16	**Total securities financing transaction exposures (sum of rows 12 to 15)**	**-**
Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	25,735,553
18	(Adjustments for conversion to credit equivalent amounts)	(19,973,874)
19	**Off-balance sheet items (sum of rows 17 to 18)**	**5,761,679**
Capital and total exposures		
20	Tier 1 capital	7,506,879
21	**Total exposures (sum of rows 3, 11, 16 and 19)**	**36,926,376**
Leverage ratio		
25	Basel III leverage ratio	20.3%

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13. LIQA - Liquidity Risk Management:

a) Governance of liquidity risk management, including: risk tolerance; structure and responsibilities for liquidity risk management; internal liquidity reporting; and communication of liquidity risk strategy, policies and practices across business lines and with the board of directors.

The Bank has a Board approved Liquidity Risk Management Policy (LRMP) that sets out the principles, minimum standards, risk appetite, approach and the key roles and responsibilities of the Board of Directors (BoD) and the Senior Management in relation to the liquidity risk management in the Bank. The BoD delegates some of its supervisory responsibilities to the Board Risk Policy Committee (BRPC) which assist the BoD in reviewing the risk profile of the Bank, establishing the Risk Management Framework and relevant controls, reviewing the risk appetite, policies, and overall limits and parameters within which the Bank conducts its business. The Assets and Liabilities Committee (ALCO), chaired by the Chief Financial Officer, and include Head of Corporate Banking, Head of Finance, Head of Retail Banking, Head of Risk, Head of Strategy, and Head of Treasury as members. ALCO regularly monitors the liquidity risk profile of the Bank and periodically reviews information to understand and assess the liquidity risk exposure, including the composition, maturity characteristics and diversification of the liquidity resources.

Treasury has the overall responsibility for managing the status of liquidity on a day-to-day basis and meeting short-term cash flow and manage funding requirements within ALCO approved limits.

The Bank has identified the following risk appetite metrics to assist in measuring the liquidity risk exposure.

a) Liquidity Coverage Ratio: The measure of the Bank's short-term resilience in facing stressed conditions for a period of up to one month

b) Net Stable Funding Ratio: The measure of the Bank's long-term resilience in facing stressed conditions for periods beyond one year

c) Survival Time Horizon: The period in which the Bank shall be able to survive without resorting to external funding based on cash flow assumptions approved by ALCO

d) Fund Raising Capacity from Liquidity Reserve: The Bank's ability to raise funding within a short period at an acceptable cost through the utilisation of the Bank's liquidity reserve

e) SAMA's Liquidity Ratio: Ensures that the 20% of the customer deposits are always maintained in short dated placements, treasury bills and government Bonds

f) Loans to Deposits ratio: Ensures that the Bank has adequate customer deposits to fund its loans portfolio

b) Funding Strategy

The Bank's funding strategy is to increase the retail and operational wholesale deposits through its Global Transaction Banking (GTB) and Retail initiatives. Additionally, the Bank also ensures that deposit maturities are not concentrated by ensuring the deposits have an average (remaining) tenor of 90 days. The average tenor of core deposits is monitored by ALCO each week and reported to the BRPC each quarter.

c) Liquidity risk mitigation techniques

Liquidity risk is the risk that sufficient funds are not available to meet the Bank's financial obligations on a punctual basis as they fall due. The risk arises from the timing differences between the maturity profiles of the Bank's assets and liabilities. It includes the risk of losses arising from the following:

- forced sale of assets at below normal market prices
- raising of deposits or borrowing funds at excessive rates
- the investment of surplus funds at below market rates

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

The Bank's liquidity controls ensure that, over the short-term, the future profile of cash flows from maturing assets is adequately matched to the maturity of liabilities. Liquidity controls also provide for the maintenance of a stock of liquid and readily realisable assets and a diversified deposit base in terms of both maturities and range of depositors.

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13. LIQA - Liquidity Risk Management: (continued)

d) Liquidity Stress Testing

The Bank conducts liquidity stress testing as part of the ILAAP exercise. The stress tests are conducted under three scenarios; severe, moderate and mild over a time horizon of three months. The impact of liquidity risk factors such as deposit concentration risk, Retail funding risk, Wholesale funding risk and other material risks are assessed to gauge the impact on regulatory ratios.

The stress tests are designed to assess the Bank's liquidity position under the three stress test scenarios in conjunction with the management actions that can be taken (if required) to restore the regulatory ratios within the regulatory guidelines in stressed liquidity situations.

e) Contingency funding plan

The Bank will consider the following contingency funding options in case of a contingency funding situation:

- Use unencumbered stock of liquid assets to secure repo funding
- Pay higher premiums to increase liquidity
- Cease new lending activity
- Cease new investment activity
- Reduce tenor of interbank placements
- Increase deposit tenors

The Bank's Treasury function monitors several early warning indicators (EWIs) for signs of distress in the banking sector, and other geographic areas, which have the potential to impact the Bank's liquidity and funding. These EWIs act as indicators for any potential liquidity or market stress in the banking sector, other sectors and other geographic areas, which might have the ability to impact the Bank's liquidity and funding.

f) Customised measurement tools or metrics that assess the structure of the bank's balance sheet or that project cash flows and future liquidity positions, taking into account off-balance sheet risks which are specific to that bank.

On Balance

SAR (thousands)	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	7,211,566	-	-	-	1,032,275	8,243,841
Due from Banks and other financial institutions	1,418,069	-	30,018	-	-	1,448,087
Investments, net	189,585	1,347,766	-	651,695	584,700	2,773,746
Positive fair value of derivatives	-	-	-	-	160,959	160,959
Loans and advances, net	8,935,452	2,781,354	4,451,463	996,865	325,308	17,490,442
Other assets	54,814	-	-	-	43,210	98,024
Total assets	**17,809,486**	**4,129,120**	**4,481,481**	**1,648,560**	**2,146,452**	**30,215,099**
Liabilities						
Due to banks and other financial institutions	502,009	50,000	-	-	26,460	578,469
Customer deposits	12,361,013	1,431,144	71,384	-	7,853,217	21,716,758
Negative fair value of derivatives	-	-	-	-	175,739	175,739
Lease liabilities	-	-	-	-	224,542	224,542
Other liabilities	-	-	-	-	91,317	91,317
Total Liabilities	**12,863,022**	**1,481,144**	**71,384**	**-**	**8,371,275**	**22,786,825**
On Balance sheet Gap	**4,846,464**	**2,647,976**	**4,410,097**	**1,648,560**	**(6,224,823)**	**7,428,274**

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13. LIQA - Liquidity Risk Management: (continued)

Off Balance

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

g) Concentration limits on collateral pools and sources of funding (both products and counterparties.

Sources of Funding Distribution	
Deposits from banks	2.4%
Deposits from customers	95.4%
Other liabilities	2.2%

14. LIQ1 – Liquidity Coverage Ratio (LCR)

SAR (thousands)	Total Unweighted Value	Total Weighted Value
High-Quality Liquid Assets		
Total high-quality liquid assets (HQLA)		10,090,462
Cash Outflows		
Retail deposits and deposits from small business customers, of which:		
Less stable deposits	2,122,514	212,251
Unsecured wholesale funding, of which:		
Non-operational deposits	11,999,031	5,044,155
Additional requirements, of which:	1,240,664	128,698
Outflows related to derivative exposures and other collateral requirements	5,146	5,146
Credit and liquidity facilities	1,235,517	123,552
Other contractual funding obligations	410,000	410,000
Other contingent funding obligations	14,768,418	348,618
Total Cash Outflows		6,143,723
Cash Inflows		
Inflows from fully performing exposures	2,783,236	2,167,740
Other cash inflows	20,930	10,178
Total Cash Inflows	**2,804,166**	**2,177,918**
Total HQLA		**10,090,462**
Total Net Cash Outflows		**3,965,805**
Liquidity Coverage Ratio (%)		**254%**

- The average LCR is calculated by taking a simple average of the daily balances for the month of December 2019
- Saudi Arabian Monetary Authority requires banks to maintain minimum LCR of 100%. The Bank's LCR stands at 254% as at 31st December 2019
- The Bank held 98% of its High-Quality Liquid Assets (HQLA) in the form of cash, placements with central bank and 0% risk weight sovereign securities
- The majority of the Bank's weighted cash flows are attributable to the wholesale funding comprising of 63% of outflows; sovereigns, central banks, PSEs and MDBs at 12%, bank deposits at 7% and retail deposits at 3%
- As required by the regulator, LCR is monitored for all significant currencies to ensure compliance with liquidity ratios in either currency, these include SAR and USD

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15. LIQ2 – Net Stable Funding Ratio (NSFR)

SAR (thousands)	Unweighted Value by Residual Maturity			
Available stable funding (ASF)	**< 6 months**	**≥ 6 months to < 1 year**	**≥1 year**	**Weighted Value**
Capital			7,506,879	7,506,879
Retail: Less stable deposits	5,483,500	66,942	10,615	5,006,013
Wholesale funding (non-operational deposit)	13,830,924	180,860	50,127	7,056,019
Other wholesale funding	2,463,014	125,017	10,762	1,074,257
Total ASF				**20,643,168**
Required stable funding (RSF)				
Coins and banknotes	43,814			
Total central bank reserves	8,189,461			
Unsecured loans to financial institutions	1,753,537		30,051	293,082
Securities eligible as Level 1 HQLA	145,839		1,526,113	83,598
Securities eligible for Level 2B HQLA			363,376	181,688
Unencumbered loans to non-financial corporate clients with a residual maturity of less than one year	11,362,450	1,073,423		6,217,936
Unencumbered loans to retail and small business customers with a residual maturity of less than one year	54,339	54,643		54,491
Unencumbered performing loans with risk weights greater than 35% under the Basel II standardised approach for credit risk	1,755	1,776	3,974,200	3,226,835
Unencumbered Non-HQLA exchange traded equities			107,518	91,390
Unencumbered Non-HQLA securities not in default	39,214		614,896	542,268
Unencumbered	85,472			42,736
Defaulted securities and non-performing loans	782,698	46,324	169,110	998,132
Derivatives assets			5,952	5,952
Required stable funding associated with derivative liabilities			176,097	35,219
All other assets not included in above categories that qualify for 100% treatment	359,819			359,819
Off-balance sheet items	1,235,517			61,776
Total RSF				**12,194,922**
Net Stable Funding Ratio				**169%**

- As at 31st December 2019 the Bank held a balance of 36% of its Available Stable Funding (ASF) in form of capital, with a 100% ASF factor. The majority of the remaining balance of ASF was 34% in wholesale funding with 50% ASF factor, and a 24% in retail deposits with 90% ASF factor
- The Required Stable Funds (RSF) as at 31st December 2019 primarily consisted of performing loans and securities contributing 89% of the RSF, with various RSF factors The loan portfolio constitutes performing loans to non-financial corporates, loans to retail and loans to financial institutions at 80% of the RSF. The remaining RSF are attributable to HQLA, other assets and off balance sheet items

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As at 31st December 2019

16. CRA - General qualitative information about credit risk

a) How the business model translates into the components of the Bank's credit risk profile.

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

Where appropriate, the Bank seeks to minimise its credit exposure using a variety of techniques including, but not limited to, the following:

- entering netting agreements with counterparties that permit the offsetting of receivables and payables
- obtaining collateral
- seeking third party guarantees of the counterparty's obligations
- imposing restrictions and covenants on borrowers

Credit risk is actively managed and rigorously monitored in accordance with well-defined credit policies and procedures. Prior to the approval of a credit proposal, a detailed credit risk assessment is undertaken which includes an analysis of the obligor's financial condition, market position, business environment and quality of management. The risk assessment generates an internal credit risk rating for each counterparty, which affects the credit approval decision and the terms and conditions of the transaction. For cross-border transactions, an analysis of country risk is also conducted. The credit decision for an individual counterparty is based on the aggregate Bank exposure to that counterparty and all its related entities.

b) Criteria and approach used for defining credit risk management policy and for setting credit risk limits.

The Bank has established a framework to identify all activities that might result in credit risk exposure and continues to rigorously manage its exposure to ensure that the Bank addresses the risk of default and consequent loss of earnings and impact on capital.

The credit risk management framework encompasses credit risk governance structure, credit risk appetite, credit risk strategies, credit risk policies and which are fully compliant with the BCBS and SAMA's regulations.

The Bank has a **credit risk governance structure** is in place that oversees credit risk management, supported by individuals and committees who have the appropriate levels of experience, qualifications and competence.

The Bank's risk appetite statement includes the Bank level credit risk appetite ensuring diversification and concentration limit thereby embracing credit risk capacity, targets, and tolerance levels and limit structure.

The Bank has developed **credit risk strategies** that shall help in minimising undue concentration and unexpected losses, while maintaining a diversified credit portfolio, effectively protecting the Bank's capital in all market conditions. These strategies clearly articulate and define the product lines and types of credit facilities offered, target markets (customers, industries, countries), portfolio mix, credit granting criteria, credit approving authorities and exceptions reporting.

The Bank has in place clearly articulated **credit risk policies and procedures** to address credit risk in the bank's activities at both individual and credit portfolio level, which reflect the bank's credit culture and ethical standards including credit granting, credit rating, credit monitoring, collateral management and distressed credit.

Bank-wide **credit limit setting** and approval authorisation requirements are conducted within Board approved guidelines, and the measurement, monitoring and control of credit exposures are done on a Bank-wide basis in a consistent manner. Overall exposures are evaluated to ensure diversification of credit risk. Potential concentration risks by product, industry, single obligor, credit risk rating and geography are regularly assessed with a view to improving overall portfolio diversification. Established limits and actual levels of exposure are regularly reviewed by the Chief Risk Officer (CRO) and other members of senior management.

All credit exposures are reviewed at least once a year. Credit policies and procedures are designed to identify, at an early stage, exposures which require more detailed monitoring and review.

Credit Granting and Rating

The Bank has established policies and processes to ensure that the Bank manages credit risk inherent in all products and activities based on the below key guidelines:

a) Risks of new products and activities is subject to adequate risk management procedures and controls and endorsed by the relevant authorised Committee/Senior Management, before being introduced to the market;

b) Credit exposure is subjected to a comprehensive credit review and due diligence;

c) Detailed credit rating methodology based on leading practices is used for assessing the credit worthiness of its obligors;

d) Policy is in place for the acceptance, assessment and management of collateral, where applicable; and

e) Clearly identified process is in place for obtaining credit approvals for new credit, as well as for amendments, renewals and refinancing of existing credit.

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16. CRA - General qualitative information about credit risk (continued)

Credit Monitoring and Reporting

The Bank has established policies and processes to administer and monitor credit on an individual level and portfolio level, ensuring composition and quality of the credit (portfolio and individual), through the analysis of qualitative and quantitative information and ensuring adequacy of provisions when required;

a) efficient and effective credit administration policies govern monitoring adequacy of documentation, contractual requirements, adequate segregation of duties, adequate controls over all back-office procedures and compliance with prescribed management policies;

b) credit risk exposures are assessed under stressful conditions by conducting appropriate stress testing using different scenarios;

c) Concentration risk is monitored by industry, segment, single obligor, credit rating and geography;

d) framework for early warning indicators is implemented that measures the Bank's credit risk exposures;

e) Comprehensive procedures and adequate management information systems are in place to support the continuous monitoring and assessment of credit risk at both an individual and portfolio level;

f) Independent and on-going assessment of the credit risk management process is in place;

g) Effective and efficient internal reporting framework is established; and

h) Internal controls to ensure that exceptions to policies and limits are monitored and reported to the appropriate approving authorities are established.

Distressed Credit

The Bank has policies and processes in place for managing distressed credit and to ensure that remedial actions are undertaken on a timely basis. The Bank has a remedial management process triggered by specific events throughout the credit monitoring process. The Bank has established a Provisions Committee which sets the provisioning framework, methodology and processes, to ensure that adequate levels of provisions are in place at both an individual and portfolio level. The Provisions Committee reviews the provisions on a quarterly basis. The Bank classifies its exposures and calculate provisions in accordance with IFRS 9;

c) Structure and organisation of the credit risk management and control function.

The Bank's Board-approved credit risk management structure clearly delineates lines of authority, establish accountabilities and responsibilities of individuals involved in the different phases of the credit risk management process.

The Bank's credit risk management organization is broadly classified into three functional lines of activities: The Business Lines, Credit Risk Management function and Credit administration, to properly segregate accountabilities, ensure that no individual is assigned conflicting responsibilities, and effectively monitor and control the risks being taken.

The **Business lines** (Wholesale Banking, Treasury and Retail Banking) perform credit originating; recommend internal credit ratings, classifications and allowances for losses including changes thereafter, if required; and the on-going monitoring of credit exposures of borrowers on a day-to-day basis.

The Bank has a dedicated **Credit Risk Management function** that are independent of business units headed by the CRO, who reports to the CEO. The Credit Risk Management function staff members have the necessary skills, expertise and specialisation. The function performs risk management and control functions that are independent from the credit originating and administration functions. The Credit Risk Management function provides meaningful inputs in policy formulation and limits setting, designs and implements the Bank's internal credit risk rating system and reviews periodic exposure and exception monitoring. All credit proposals are independently reviewed by the Credit Risk Management function and then recommended to the appropriate level of approval authority as defined in the Bank's policy which include Board of Directors, the Executive Committee of the Board and Senior Management Credit Committee of the Bank.

Special Asset Management is another function within Risk Management that is independent from the credit originating function to ensure that problem loans are managed effectively to minimise potential losses.

The **Credit Administration and Risk Control** function provides support in the overall credit administration, including, among others: ensuring complete documentation, credit disbursement and recording of payments received; maintenance of credit and collateral files; and compilation of management information reports.

d) Relationships between the credit risk management, risk control, compliance and internal audit functions.

The Board has ultimate responsibility for the Bank's risk organization and for ensuring satisfactory internal control. The Board adopts policies for controlling all perceived risks and these are supplemented by detailed routines and guidelines within the Bank. Board Risk Policy Committee (BRPC) supports the Board by discussing, steering and monitoring these risks and prepare for decisions by the full Board.

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As at 31st December 2019

16. CRA - General qualitative information about credit risk (continued)

The CEO has overall responsibility for managing all the Bank's risks in accordance with the Board's policies. The CEO ensures that the Bank's organisation and administration are appropriate and that the Bank's operations are in compliance with the external and internal framework. The CRO supports the CEO by ensuring that the Board has all necessary information to make risk related decisions.

The basis for the risk management and internal control framework in the Bank is based on the three lines of defence model that is governed by the Bank's policies.

The first line of defence refers to all risk management activities carried out by the line management and staff. All managers are fully responsible for the risks, and the management of these, within their respective area of responsibility. Hence, they are responsible for ensuring that the appropriate organisation, procedures and support systems are implemented to ensure a sufficient system of internal controls.

The second line of defence refers to Bank's independent Credit Risk Management, Risk Control and Compliance Functions. To ensure independence, these functions are not involved in business operations. These functions set the framework and principles for the work on risk management and compliance, and carry out independent follow-up. Each function in the second line of defence has a well-defined mandate to ensure full independence of each function organisationally and operationally. These functions, however, operate in a coordinated manner to ensure that the Bank maintains the Risk Management Framework and Strategy.

Credit Risk Management is responsible for maintaining the Credit Risk Management Framework in the Bank by conducting credit risk assessments and managing the credit approval process within the Bank's risk strategy, risk profile, risk appetite and policy standards.

Credit Administration and Risk Control is responsible for the overall documentations, collateral management and limits management framework of the Bank where they ensure no breaches are noted. Any exceptions, if any, is escalated to the relevant stakeholders.

Compliance Function is responsible for ensuring compliance with KYC guidelines under applicable laws and regulatory requirements.

The third line of defence refers to the **Internal Audit Function** which is responsible for carrying out a risk-based programme of work designed to provide assurance that Board-approved Credit Risk Management Framework have been consistently applied. This involves ensuring that controls are in place and working effectively in accordance with the Bank's policies and procedures as well as with laws and regulations. The Board Audit Committee receives regular reports of the results of audit work.

e) Scope and main content of the reporting on credit risk exposure and on the credit risk management function to the executive management and to the board of directors.

The Credit Risk Reporting incorporates all the relevant forward looking business and financial risk drivers and metrics that are reflective of the nature of the Bank's business and is based on data that is subject to appropriate controls to ensure its integrity. The Credit Risk reports provided to Senior management and the Board on quarterly basis include:

- Providing an overview of GIB's credit risk profile, includes:
  - High-level summary of credit portfolio by credit rating classification, industry, region and country.
  - Summary of significant period-on-period changes to portfolio structure and composition.
  - Highlights of observed limit breaches, if any, including credit concentration limits together with details of corrective action.
  - Summary of collateral portfolio and composition.
  - Highlights of significant changes, if any, in the level of provisions, non-performing loans, major write-offs, decline in collateral values etc., and management actions taken in light of their developments.
  - Monitoring compliance with risk appetite metrics.
- Monitoring the results of the credit risk stress tests including:
  - Results of the quarterly credit risk stress testing, underlying scenarios and assumptions employed.

Key highlights from the analysis of the stress test results and comparison of results against the previous quarter.

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17. CR1 - Credit quality of assets

		a	b	c	d
		Gross carrying values of			
	SAR (thousands)	Defaulted exposures	Non-defaulted exposures	Allowances/ impairments	Net values (a+b-c)
01	Loans	1,401,208	16,887,901	671,414	17,617,695
02	Debt Securities		2,192,423		2,192,423
03	Off-balance sheet exposures		26,142,841		26,142,841
04	**Total**	**1,401,208**	**45,223,165**	**671,414**	**45,952,959**

A default is considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place:

1. The obligor is past due for 90 days or more on any material credit obligations to the Bank including principal instalments, interest payments and fees.
2. The bank considers that the obligor is unlikely to pay its credit obligations to the bank in full, without recourse by the bank to actions such as realising security (if any).

18. CR2 - Changes in stock of defaulted loans and debt securities

	SAR (thousands)	Loans
1	**Defaulted loans and debt securities at end of the previous reporting period**	**2,068,043**
2	Loans and debt securities that have defaulted since the last reporting period	347,048
3	Returned to non-defaulted status	
4	Amounts written off	(1,013,883)
5	Other changes	
6	**Defaulted loans and debt securities at end of the reporting period**	**1,401,208**

19. CRB – Additional disclosure related to the credit quality of assets

a) The scope and definitions of past due and impaired exposures used for accounting purposes and the differences, if any, between the definition of past due and default for accounting and regulatory purposes.

Past due exposures represent those assets with payment obligations that has not been made as of the due date and / or in a timely fashion.

Individually **impaired** financial assets represent assets for which there is objective evidence that the Bank will not collect all amounts due, including both principal and interest, in accordance with the contractual terms of the obligation. Provisions for impairment are determined based on the difference between the net carrying amount and the recoverable amount of a financial asset. The recoverable amount is measured as the present value of expected future cash flows, including amounts recoverable from guarantees and collateral.

Provisions for impairment are also measured and recognised on a collective basis in respect of expected credit losses and are classified as either stage 1 or stage 2, in accordance with IFRS 9.

The stage 1 and stage 2 provisions reflect the probability-weighted estimate of expected credit losses. The provisions comprise both quantitative and qualitative information and analysis, based on the Bank's historical experience and taking into consideration both internal and external indicators and includes forward-looking information.

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

Credit facilities are placed on non-accrual status and interest income suspended when either principal or interest is overdue by 90 days whereupon unpaid and accrued interest is reversed from income. Interest on non-accrual facilities is included in income only when received. Credit facilities classified as past due are assessed for impairment in accordance with the IFRS guidelines. A specific provision is established only where there is objective evidence that a credit facility is impaired.

b) The extent of past-due exposures (more than 90 days) that are not considered to be impaired and the reasons for this.

The 90 days rule for past due will generally apply unless the Bank has strong evidence to support a different classification. Substantial scrutiny is required to ensure that such evidence is in place and that it is fully documented and approved by the relevant authorities.

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19. CRB – Additional disclosure related to the credit quality of assets (continued)

c) Description of methods used for determining impairments.

Expected Credit Losses on a collective basis is calculated for the following credit risk-related exposures that are not specifically impaired (provisioned). These would principally consist of:

a) Loans,

b) Credit-related contingents, excluding performance bonds,

c) Investments securities, and

d) Placements that have tenors greater than six months.

For all undrawn advised committed lines, a 50 per cent drawdown is assumed. The 50% drawdown is consistent with the 50% Credit Conversion Facto (CCF) specified under the Basel rules for undrawn committed facilities.

Individually impaired financial assets represent assets for which there is objective evidence that the Bank will not collect all amounts due, including both principal and interest, in accordance with the contractual terms of the obligation. Objective evidence that a financial asset is impaired may include:

a) a breach of contract, such as default or delinquency in interest or principal payments,

b) the granting of a concession that, for economic or legal reasons relating to the borrower's financial difficulties, would not otherwise be considered,

c) indications that it is probable that the borrower will enter bankruptcy or other financial re-organisation,

d) the disappearance of an active market, or

e) other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

d) The Bank's own definition of a restructured exposure.

A restructured loan will be one where the terms and conditions have been modified, principally because of deterioration in the borrower's financial condition. Restructuring proposals will warrant certain concessions / conditions depending upon the particular situations involved.

e) Geographic analysis of credit risk exposures under the Standardised approach:

	SAR (thousands)	Exposures before CCF and CRM						
	Standardised Approach Asset classes	Saudi Arabia	GCC & Middle East	Europe	South East Asia	North America	Others	Total
01	Sovereigns and their central banks	9,864,815						9,864,815
02	Non-central government public sector entities	1,932						1,932
03	Multilateral development banks	3,174						3,174
04	Banks	1,194,612	6,380,031	1,262,195	173,853	851,718	75,046	9,937,455
06	Corporates	32,414,494	1,843,957	4,214				34,262,665
07	Regulatory retail portfolios	522,156						522,156
10	Equity	381,079						381,079
11	Past-due loans	731,977						731,977
13	Other assets	991,375						991,375
14	**Total**	**46,105,614**	**8,223,988**	**1,266,409**	**173,853**	**851,718**	**75,046**	**56,696,628**

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19. CRB – Additional disclosure related to the credit quality of assets (continued)

f) Industry analysis of credit risk exposures under the Standardised approach:

	SAR (thousands)												
	Standardised Approach Asset classes	Agriculture	Construction	Finances	Government	Manufacturing	Mining	Services	Transportation	Utilities	Wholesale Trade	Others	Total
1	Sovereigns and their central banks				9,864,815								9,864,815
2	Non-central government public sector entities				1,932								1,932
3	Multilateral development banks				3,174								3,174
4	Banks			9,937,455									9,937,455
5	Corporates	1,030,962	7,755,712	4,616,287		2,668,995	4,780,385	2,740,068	1,853,862	1,404,593	6,414,036	496,545	34,262,665
6	Regulatory retail portfolios											522,156	522,156
7	Equity			115,494			265,585						381,079
8	Past-due loans		126,280			41,281		45,921	283,214		188,964		731,977
9	Other assets			127,066								864,309	991,375
	Total	1,030,962	7,881,992	14,796,302	9,869,921	2,710,276	5,045,970	2,785,989	2,137,076	1,404,593	6,603,000	1,883,010	56,696,628

	SAR (thousands)	Exposures before CCF and CRM					
	Industry Sector	Neither past due nor impaired	Past due but not impaired	Impaired	Total gross amount	Impairment allowances	Total
1	Agriculture	1,030,962			1,030,962		1,030,962
2	Communication	499,195	2,025	123,177	624,397	76,860	547,537
3	Construction	7,361,637	394,076	369,196	8,124,909	242,917	7,881,992
4	Finances	14,796,302		620	14,796,922	620	14,796,302
5	Government	9,869,921			9,869,921		9,869,921
6	Manufacturing	2,597,364	71,631	68,389	2,737,384	27,108	2,710,276
7	Mining	5,042,300	3,670		5,045,970		5,045,970
8	Services	2,716,796	23,272	244,249	2,984,317	198,328	2,785,989
9	Transportation	1,853,862		283,214	2,137,076		2,137,076
10	Utilities	1,404,593			1,404,593		1,404,593
11	Wholesale Trade	6,406,019	8,016	312,363	6,726,398	123,398	6,603,000
12	Others	1,856,406	28,787		1,885,193	2,183	1,883,010

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19. CRB – Additional disclosure related to the credit quality of assets (continued)

g) Residual Maturity analysis of credit risk exposures under the Standardised approach:

	SAR (thousands)	Exposures before CCF and CRM			
	Standardised Approach Asset classes	<=1 year	> 1 year and <= 5 years	> 5 years	Total
01	Sovereigns and their central banks	8,349,691	847,591	667,533	9,864,815
02	Non-central government public sector entities	1,932			1,932
03	Multilateral development banks	3,174			3,174
04	Banks	8,873,245	1,014,427	49,783	9,937,455
05	Corporates	24,632,909	8,798,015	831,741	34,262,665
06	Regulatory retail portfolios	82,038	439,266	852	522,156
07	Equity			381,079	381,079
08	Past-due loans	574,442	37,915	119,620	731,977
09	Other assets	976,063	15,312		991,375
	Total	**43,493,494**	**11,152,526**	**2,050,608**	**56,696,628**

h) Ageing analysis of days for past due credit risk exposures:

	SAR (thousands)	Exposures before CCF and CRM					
	Standardised Approach Asset classes	Up to 29 days	30-59 days	60-89 days	90-179 days	180 days and over	Total
1	Loans	188,300	31,623	11,489	5,785	494,780	731,977
2	Debt Securities	0	0	0	0	0	0
3	Off-balance sheet exposures	0	0	0	0	0	0
	Total	**188,300**	**31,623**	**11,489**	**5,785**	**494,780**	**731,977**

20. CRC - Qualitative disclosure requirements related to credit risk mitigation techniques

a) Core features of policies and processes for, and an indication of the extent to which the Bank makes use of, on- and off-balance sheet netting.

Not Applicable. No such netting is applicable in the financial statements.

b) Core features of policies and processes for collateral evaluation and management.

The Bank has in place a collateral Management policy that is an integral part of the overall framework of credit risk management for Wholesale Banking within the Bank and sets out the parameters and criteria for the acceptance of collateral and its management. The primary objectives of this collateral Management Framework are to:

a) Assist the Relationship Managers (RMs) of Wholesale Banking in the determination of acceptability of collateral;

b) Support the responsible individuals in conducting an analysis and assessment of collateral against the value of the exposure;

c) Set out the policies to ensure that the collateral provided is legally enforceable;

d) Establish the requirements to safeguard collateral; and

e) Define the process for conducting periodic review and valuation of collateral.

The amount and type of collateral is dependent upon the assessment of the credit risk of the counterparty. The market/ fair value of the collateral is actively monitored on a regular basis and requests are made for additional collateral in accordance with the terms of the facility agreements. In general, lending is based on the customer's repayment capacity rather than the collateral value. However, collateral is considered the secondary alternative if the repayment capacity proves inadequate. Collateral is not usually held against securities or placements.

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20. CRC - Qualitative disclosure requirements related to credit risk mitigation techniques (continued)

Types of eligible collateral commonly accepted

The Bank holds collateral against loans and advances in the form of physical assets, cash deposits, securities and guarantees.

Monitoring of Collateral Values

For all collateral where title deeds are being pledged, the RM with the assistance of external valuators is required to conduct a physical inspection/examination and shall produce a site visit report prior to the granting of the facility. This must be done unless waived by the Credit Approving Authority.

In accordance with section 6.1 (Financial Collateral) of the Basel II – SAMA's Detailed Guidance Document relating to Pillar 1 document, issued by SAMA in June 2016, the Bank applies haircuts to collateral valuation in accordance with section 3 (Collaterals) of the International Convergence of Capital Measurement and Capital Standards paper issued by the Basel Committee on Banking Supervision dated June 2006.

For physical assets, a minimum of two external valuation reports from different valuators shall be considered for the purpose of valuation at the Bank.

The Bank has in place a list of approved valuators who are professional and qualified to provide an opinion on the value of the collateral. The external valuators being appointed should be qualified under respective jurisdiction to conduct examination of the collateral.

The Bank takes into account concentrations of non-cash collateral for all product lines covered by collateral agreements.

Credit Administration function is responsible for generating the report identifying Collateral concentrations

c) Information about market or credit risk concentrations under the credit risk mitigation instruments used (i.e. by guarantor type, collateral and credit derivative providers).

The Bank uses a variety of credit risk mitigation techniques which contribute to risk diversification and credit protection. The different credit risk mitigation techniques such as collateral, guarantees, credit derivatives, netting agreements and covenants are used to reduce credit risk. The recognised credit risk mitigation activities are undertaken with various counterparties to ensure no additional credit or market risk concentrations occur.

Concentration risk is the credit risk stemming from not having a well-diversified credit portfolio, i.e. the risk inherent in doing business with large customers or being overexposed in particular industries or geographic regions. Concentration risk is captured in the Bank's Pillar 2 capital framework through the use of a credit risk portfolio model which considers single-name concentrations and sector concentrations in the credit portfolio

21. CR3 - Credit risk mitigation techniques – overview

SAR (thousands)		Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
01	Loans	17,230,362	387,333	204,225	34,491	34,491		
02	Debt Securities	2,192,423						
03	**Total**	19,422,785	387,333	204,225	34,491	34,491		
04	Of which defaulted	730,642	1,335	50				

Basel 3 Pillar 3 Disclosures

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22. CRD - Qualitative disclosures on Banks' use of external credit ratings under the standardised approach for credit risk

a) Names of the external credit assessment institutions (ECAIs) and export credit agencies (ECAs) used by the Bank, and the reasons for any changes over the reporting period.

The Bank uses the following External credit assessment institutions (ECAIs):

a) Moody's,

b) Standard & Poor's and

c) Fitch.

b) The asset classes for which each ECAI or ECA is used.

Externally rated Corporate, Banks and Securities Firms.

c) A description of the process used to transfer the issuer to issue credit ratings onto comparable assets in the Banking book (see paragraphs 99–101 of the Basel framework); and

The Bank uses ratings issued by Standard & Poor's, Moody's and Fitch to derive the risk-weightings under the Basel 3 capital adequacy framework. Where ratings vary between rating agencies, the highest rating from the lowest two ratings is used to derive the risk-weightings for regulatory capital adequacy purposes.

d) The alignment of the alphanumerical scale of each agency used with risk buckets (except where the relevant supervisor publishes a standard mapping with which the Bank has to comply).

The Bank uses grade scales from "1" to "10" with sub-grades that totals to 20 rating categories where "1" is the highest or the "best" and 10 is the lowest or the "worst" with ratings from "2" to "6" being further differentiated with "+" and "-" modifiers. The Bank's grade scale is mapped to external rating agencies (Standard & Poor's/ Moody's & Fitch) Investment grades (1-4) are mapped to (Standard & Poors & Fitch AAA to BBB- & Moody's AAA to Baa3), Sub-investment grades (5-7) mapped to (Standard & Poors & Fitch BB+ to C & Moody's Ba1 to C) and default grades are (8-10).

Investment Grade

GIBCR	Moody's	S&P	Fitch
1	AAA	AAA	AAA
2+	Aa1	AA+	AA+
2	Aa2	AA	AA
2-	Aa3	AA-	AA-
3+	A1	A+	A+
3	A2	A	A
3-	A3	A-	A-
4+	Baa1	BBB+	BBB+
4	Baa2	BBB	BBB
4-	Baa3	BBB-	BBB-
5+	Ba1	BB+	BB+
5	Ba2	BB	BB
5-	Ba3	BB-	BB-
6+	B1	B+	B+
6	B2	B	B
6-	B3	B-	B-
7	Caa - C	CCC - C	CCC - C
8 - 10	-	D	D

Sub-Investment Grade

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23. CR4 - Standardised approach – credit risk exposure and Credit Risk Mitigation (CRM) effects

	SAR (thousands)	a	b	c	d	e	f
		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	Asset classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
01	Sovereigns and their central banks	9,864,815		9,864,815		0	0%
02	Non-central government public sector entities	1,932		1,932		966	50%
03	Multilateral development banks	3,174		3,174		1,587	50%
04	Banks	1,534,594	8,402,861	1,584,814	2,315,140	1,653,405	42%
06	Corporates	16,528,470	17,734,195	16,478,250	3,849,733	19,749,744	97%
07	Regulatory retail portfolios	522,156		522,156		522,156	100%
10	Equity	381,079		381,079		381,079	100%
11	Past-due loans	731,977		731,977		916,426	125%
13	Other assets	985,590	5,785	985,590	4,094	946,250	96%
	Total	**30,553,787**	**26,142,841**	**30,553,787**	**6,168,967**	**24,171,613**	**66%**

24. CR5 - Standardised approach – exposures by asset classes and risk weights

	SAR (thousands)	a	b	c	d	e	f	g	h	j
	Asset classes/ Risk weight*	0%	10%	20%	35%	50%	75%	100%	150%	Total credit exposures amount (post CCF and post-CRM)
01	Sovereigns and their central banks	9,864,815								9,864,815
02	Non-central government public sector entities					1,932				1,932
03	Multilateral development banks					3,174				3,174
04	Banks			1,520,468		2,060,350		319,136		3,899,954
06	Corporates	205,407		58,543		651,845		19,412,188		20,327,983
07	Regulatory retail portfolios							522,156		522,156
10	Equity							381,079		381,079
11	Past-due loans	50						362,994	368,933	731,927
13	Other assets	43,475						946,209		989,684
	Total	**10,113,747**	**0**	**1,579,011**	**0**	**2,717,301**	**0**	**21,943,762**	**368,933**	**36,722,754**

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25. CCRA – Qualitative disclosure related to counterparty credit risk

a) Risk Management objectives and policies related to Counterparty credit risk, including:

Counterparty credit risk is the risk that a counterparty to a contract in the interest rate, foreign exchange, commodity, equity or credit markets defaults prior to the maturity of the contract. Counterparty credit risk arises in both the trading book and the banking book.

b) The method used to assign the operating limits defined in terms of internal capital for counterparty credit exposure and for CCP exposures;

The counterparty credit risk for derivative and foreign exchange instruments is subject to credit limits on the same basis as other credit exposures

c) Policies relating to guarantees and other risk mitigants and assessments concerning counterparty risk, including exposures towards CCPs;

Risk mitigation techniques are widely used to reduce exposure to single counterparties. The most common risk mitigation technique for derivative and foreign exchange-related exposure is the use of master netting agreements, which allow the bank to net positive and negative replacement values of contracts under the agreement in the event of default of the counterparty.

d) Policies with respect to wrong way exposures;

Wrong way risk is the risk that occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty. The Bank's SRMC approves all new products. As part of its approval process, the SRMC ensures that new treasury products will not result in wrong way risk.

e) The impact in terms of amount of collateral that the bank would be required to provide given a credit Rating downgrade.

Not Applicable. Existing derivates contracts that Bank is part to do not have provisions for posting additional collaterals in case of a credit rating downgrade.

26. CCR1 - Analysis of counterparty credit risk (CCR) exposure by approach

		a	b	c	d	e	f
	SAR (thousands)	Potential future exposure	Replacement cost	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
1	SA-CCR (for derivatives)	110,668	180,252		1.4	407,288	309,801
2	Internal Model Method (for derivatives and SFTs)						
3	Simple Approach for credit risk mitigation (for SFTs)						
4	Comprehensive Approach for credit risk mitigation (for SFTs)						
5	VaR for SFTs						
6	**Total**						**309,801**

27. CCR2 - Credit valuation adjustment (CVA) capital charge

		a	b
	SAR (thousands)	EAD post-CRM	RWA
	Total portfolios subject to the Advanced CVA capital charge		
1	(i) VaR component (including the 3×multiplier)		
2	(ii) Stressed VaR component (including the 3×multiplier)		
3	All portfolios subject to the Standardised CVA capital charge	407,288	250,450
4	Total subject to the CVA capital charge	407,288	250,450

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28. CCR3 - Standardised approach – CCR exposures by regulatory portfolio and risk weights

SAR (thousands)	a	b	c	d	e	f	g	h	i
Regulatory portfolio/ Risk weight	0%	10%	20%	50%	75%	100%	150%	Others	Total credit exposures
Banks			734	193,800					194,534
Corporates						212,754			212,754
Total	**0**	**0**	**734**	**193,800**	**0**	**212,754**	**0**	**0**	**407,288**

29. CCR8 - Exposures to central counterparties

		a	b
	SAR (thousands)	EAD (post-CRM)	RWA
1	**Exposures to QCCPs (total)**		-
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	-	-
3	(i) OTC derivatives		
4	(ii) Exchange-traded derivatives		
5	(iii) Securities financing transactions		
6	(iv) Netting sets where cross-product netting has been approved		
7	Segregated initial margin		
8	Non-segregated initial margin		
9	Pre-funded default fund contributions		
10	Unfunded default fund contributions		
11	**Exposures to non-QCCPs (total)**		309,801
12	Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which	407,288	309,801
13	(i) OTC derivatives	407,288	309,801
14	(ii) Exchange-traded derivatives		
15	(iii) Securities financing transactions		
16	(iv) Netting sets where cross-product netting has been approved		
17	Segregated initial margin		
18	Non-segregated initial margin		
19	Pre-funded default fund contributions		
20	Unfunded default fund contributions		

30. MRA - Qualitative disclosure requirements related to market risk

Market risk is the risk of loss due to adverse changes in interest rates, foreign exchange rates, commodity prices, equity prices and market conditions, such as liquidity. The principal market risks to which the Bank is exposed are interest rate risk and foreign exchange risk associated with its trading, investment and asset and liability management activities.

a) Strategies and processes of the Bank

The Bank's trading and foreign exchange activities principally comprise trading in debt securities, foreign exchange and derivative financial instruments. Derivative financial instruments predominantly include forwards and swaps in the interest rate and foreign exchange markets.

The Bank adopts a robust Risk Management Framework to comply with the Market Risk Strategy that address the policies and guidelines for the key processes underlying the identification, assessment, measurement, monitoring reporting and control of market risk, including:

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30. MRA - Qualitative disclosure requirements related to market risk (continued)

- Market risk planning and assessment to determine the nature and level of market risk exposure that the Bank is permitted to undertake in light of its strategy and risk appetite and maintains, among other things, a rigorous process of security selection and approval;
- Value-at-risk analysis to provide a comprehensive and consistent measure of the Bank's market risk exposure to adverse market movements;
- Limit management to monitor portfolio concentrations, size of open positions and maximum allowable losses that the Bank could face on those positions;
- Stress testing to assess and manage the risks associated with extreme market movements on the market values of the portfolios;
- Prudent valuation process to determine the mark-to-market or fair values of market risk related financial instruments and derivatives and maintain data quality;

b) Structure and organisation of the maker risk management function

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

- Board of Directors (BoD) approve Bank's overall market risk strategy and risk appetite
- The Board Risk Policy Committee (BRPC) assist the BoD in ensuring that the Bank has an adequate market risk management and risk control framework in place to realise the overall risk strategy and risk appetite
- Finance is responsible for maintaining the Bank's market risk reporting framework which includes monitoring of the BoD approved VaR and other market risk limits. All limits are reported to ALCO and BRPC on a weekly and quarterly basis respectively.

c) Scope and nature of risk reporting

A key element in the Bank's market risk management framework is the estimation of potential future losses that may arise from adverse market movements. The Bank utilises Value-at-Risk (VaR) to estimate such losses. The VaR is derived from quantitative models that use statistical and simulation methods that take account of all market rates and prices that may cause a change in a position's value. These include interest rates, foreign exchange rates and equity prices, their respective volatilities and the correlations between these variables.

The VaR takes account of potential diversification benefits of different positions both within and across different portfolios. Consistent with general market practice, VaR is computed for all financial instruments for which there are readily available daily prices or suitable proxies. VaR is viewed as an effective risk management tool and a valuable addition to the non-statistically based limit structure. It permits a consistent and uniform measurement of market risk across all applicable products and activities. Exposures are monitored against a range of limits both by risk category and portfolio and are regularly reported to and reviewed by senior management and the BoD.

31. MR1 - Market risk under standardised approach

		a
	SAR (thousands)	Capital charge in SA
1	General interest rate risk	
2	Equity risk	32,579
3	Foreign exchange risk	1,043
4	Commodity risk	
5	Credit spread risk – non-securitisations	
6	Credit spread risk – securitisations (non-correlation trading portfolio)	
7	Credit spread risk – securitisation (correlation trading portfolio)	
8	Default risk – non-securitisations	
9	Default risk – securitisations (non-correlation trading portfolio)	
10	Default risk – securitisations (correlation trading portfolio)	
11	Residual risk add-on	
12	**Total**	**33,623**

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32. IRRBBA - IRRBB risk management objectives and policies

a) A description of how the Bank defines IRRBB for purposes of risk control and measurement.

Interest rate risk arises from fluctuations in interest rates that lead to risk of losses. The Bank takes into consideration re-pricing, basis and option risks for the purposes of IRRBB. The Bank does not have any explicit rate options on its banking book and has assessed the prepayment and early redemption optionalities on its banking book to be immaterial.

b) A description of the Bank's overall IRRBB management and mitigation strategies.

The Bank's policy has been reviewed and endorsed by the Bank's Asset Liability Committee (ALCO) and Board Risk Policy Committee (BRPC) for approval by the Board of Directors (BoD).

The Bank's IRRBB management and mitigation strategies are as follows:

- BRPC is responsible for the oversight of the IRRBB management framework and the Bank's risk appetite for IRRBB
- The Bank's ALCO is responsible for the management of the IRRBB; which is to identify, measure, evaluate, and monitor the interest rate risk
- The Bank's risk appetite for IRRBB is considered in terms of the risk to both economic value (EVE at risk) and earnings (NII at risk). The management have set trigger levels which are lower than the Bank's risk appetite, if triggered, Bank's management will take corrective measures to ensure adherence to the Board approved risk thresholds
- The Bank maintains its risk position within the desired level through entering into Interest Rate Hedges

c) The periodicity of the calculation of the Bank's IRRBB measures and a description of the specific measures that the Bank uses to gauge its sensitivity to IRRBB.

The Bank calculates the IRRBB on a quarterly basis and utilises the following specific measures to gauge its sensitivity to IRRBB.

- Interest rate gap
- Earnings Approach (NII at risk)
- Economic Value Approach (EVE at risk)
- Repricing Duration Gap
- DV01

The interest rate risk in the banking book is also taken into consideration as part of the Bank's annual ICAAP.

d) A description of the interest rate shock and stress scenarios that the Bank uses to estimate changes in the economic value and in earnings

The Bank applies the six interest rate shock scenarios as prescribed by the regulator to compute the ΔEVE and two regulatory interest rate shocks for ΔNII.

e) Where significant modelling assumptions used in the Bank's IMS

The modelling assumptions used for the Bank's IRRBB as disclosed are adopted for capital adequacy purpose.

f) A high-level description of how the Bank hedges its IRRBB, as well as the associated accounting treatment.

The Bank does not intend to take on excessive IRRBB and therefore restricts itself from taking on positions with repricing tenors longer than two years. For fixed rate assets with repricing tenors greater than two years, the Bank enters into IRS trades to swap them into three-month repricing positions. Similarly, on the liability side the Bank also hedges the term deposits with greater than six-month tenors to one month or three-month repricing positions. The Bank regularly assesses the effectiveness of these hedges through prospective and retrospective tests. It ensures that all critical terms of the hedged item and hedging instrument are perfectly matched to ensure effectiveness.

g) A high-level description of key modelling and parametric assumptions used in calculating ΔEVE and ΔNII in Table B

The Bank has carried out behavioural analysis on the historical data for those balance sheet items which are not amenable to standardisation. These include fixed rate retail loans with prepayment conditionality, retail term deposits with early redemption options and Non-maturing deposits (NMDs).

- **Non-Maturing Deposits (NMDs):** The Bank continuously observes the levels of its Call and Current account portfolios and identified the balances which have been with the Bank for over a two-year period. It then assigns a two-year tenor to 75% of this minimum level of balances on a conservative basis. The Bank also observes the portion which has remained with the Bank for over a six-month period and applies a three-month tenor on this portion on a conservative basis. The remaining balances are treated as non-core and slotted in overnight bucket.
- **Prepayment Rate of Customer Loans:** The retail loan portfolio of the Bank is non-material (<1%) and therefore no prepayment assumptions are considered.

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32. IRRBBA - IRRBB risk management objectives and policies (continued)

- **Retail Term Deposits:** Redemption behaviour of all the term deposits over the last 5 years were checked for early redemptions and was assessed to be non-material (<0.1%).
- **The Corporate Lending Portfolio** of the Bank consists largely of floating rate loans, fixed rate short tenor working capital and trade financing products. More than 91% of the corporate balances reprice or mature within one year and therefore impact of any prepayment is not considered material.
- **For Corporate Term Deposits**, the Bank ensures that any early redemption is penalised to recoup the full economic loss and hence no further analysis was conducted.

33. IRRBB1 - Quantitative information on IRRBB

Segment	Average Maturity
Retail NMDs	0.97 Years
Corporate NMDs	0.47 Years
Average	**0.50 Years**

The slotting of NMDs has been done till the repricing bucket of 2 Years

Previous period comparison numbers are not included as this is the first disclosure for the Bank.

SAR (thousands)	ΔEVE	ΔNII
Parallel up	(92,642)	125,736
Parallel down	109,708	(128,308)
Steepener	(48,082)	0
Flattener	26,631	0
Short rate up	(16,665)	0
Short rate down	18,023	0
Maximum	(92,642)	(128,308)
Tier 1 Capital	7,540,211	
EVE%	**-1.23%**	

34. REMA - Remuneration policy

NOMINATION & REMUNERATION COMMITTEE

The principal objective of the Committee is to help the Board in ensuring that the Bank's remuneration remain competitive for GIB to continue to attract, retain and motivate competent staff to achieve the strategy and objectives of the Bank. The responsibilities of the Committee, as stated in its mandate, also include, but are not limited to, the following:

Nomination matters:

1. Assessing the skills and competencies required on the Board, the Committees of the Board, and Senior Management.
2. Assessing from time to time the extent to which the required skills are represented on the Board and Senior Management.
3. Establishing processes for reviewing the performance of individual Directors and the Board as a whole.
4. Establishing processes for reviewing the performance of individual Senior Executives and Senior Management as a whole.
5. Overseeing Directors' corporate governance educational activities.
6. Establishing processes for the identification of suitable candidates for Senior Management, and approving individuals qualified to become members of Senior Management.
7. Establishing a succession plan for Senior Management.

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34. REMA - Remuneration policy (continued)

Remuneration matters:

Reviewing and approving or making recommendations to the Board in respect of:

1. The executive remuneration and incentive policy which includes the fixed and variable remuneration for approved persons, and material risk-takers.
2. Policies relating to recruitment, retention, performance measurement and separation for the Directors, CEO and Senior Management.
3. Approve, monitor and review the remuneration system to ensure the system operates as intended.
4. Approve the remuneration amounts for each approved person and material risk-taker; as well as total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits.
5. Review the stress testing and back testing results before approving the total variable remuneration to be distributed.

REMUNERATION

The Bank's total compensation policy, which includes the variable remuneration policy, sets out GIB's policy on remuneration for Directors and Senior Management, and the key factors that were taken into account in setting the policy.

The Bank adopts Sound Remuneration Practices in accordance with SAMA requirements. The Board approved the framework and incentive components. The key features of the remuneration framework are summarised below.

Remuneration strategy

The Bank's basic compensation philosophy is to provide a competitive level of total compensation to attract, retain and motivate qualified and competent employees. The Bank's variable remuneration policy is driven primarily by a performance-based culture that aligns employee interests with those of the Shareholders of the Bank. These elements support the achievement of set objectives through balancing reward for both short-term results and long-term sustainable performance. The strategy is designed to share its success and to align employees' incentives with the risk framework and risk outcomes.

The quality and long-term commitment of all employees is fundamental to the success of the Bank. The Bank therefore aims to attract, retain and motivate the very best people who are committed to maintaining a career with the GIB; and who will perform their role in the long-term interests of Shareholders. The Bank's reward package comprises the following key elements:

- Fixed pay
- Benefits
- Annual performance bonus
- Deferred bonus share plan

A robust and effective governance framework ensures that the Bank operates within clear parameters of its compensation strategy and policy. All compensation matters, and overall compliance with regulatory requirements, are overseen by the Nomination and Remuneration Committee of the Board (NRC).

The Bank's remuneration policy, in particular, considers the role of each employee; and has set guidance depending on whether an employee is a Material Risk Taker and/or an Approved Person in business line, control or support functions. An Approved Person is an employee whose appointment would require prior regulatory approval because of the significance of the role within the Bank; and an employee is considered a Material Risk Taker if they head up significant business lines, and any individuals within their control have a material impact on the Bank's risk profile.

To ensure alignment between what is paid to employees and the business strategy, GIB assesses Bank-wide, divisional and individual performance against annual and long-term financial and non-financial objectives, summarised in line with the business planning and performance management process. This takes into account adherence to the Bank's values, risk and compliance measures and, above all, acting with integrity. Altogether, performance is therefore judged not only on what is achieved over the short- and long-term; but also importantly on how it is achieved, as the latter contributes to the long-term sustainability of the business.

NRC role and focus

The NRC has oversight of all reward policies for the Bank's employees. The NRC is the supervisory and governing body for compensation policy, practices and plans. It is responsible for determining, reviewing and proposing variable remuneration policy for approval by the Board. It is responsible for setting the principles and governance framework for all compensation decisions. The NRC ensures that all persons must be remunerated fairly and responsibly. The remuneration policy is reviewed on a periodic basis to reflect changes in market practices, and the business plan and risk profile of the Bank.

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34. REMA - Remuneration policy (continued)

Scope of application of the remuneration policy

The principles of this remuneration policy apply on a Bank-wide basis.

Variable remuneration for staff

The variable remuneration is performance related and consists primarily of the annual performance bonus award. As a part of the staff's variable remuneration, the annual bonus reward consists of delivery of operational and financial targets set each year, the individual performance of the employees in achieving those targets, and their contribution to delivering the Bank's strategic objectives.

The Bank has adopted a Board-approved framework to develop a transparent link between variable remuneration and performance. The framework is designed on the basis that the combination of meeting both financial performance and achievement of other non-financial factors would, all other things being equal, deliver a target bonus pool for the employees, prior to consideration of any allocation to business lines and employees individually. In the framework adopted to determine the variable remuneration pool, the NRC aims to balance the distribution of the Bank's profits between Shareholders and employees.

The key performance metrics at the Bank level include a combination of short-term and long-term measures; and include profitability, solvency, liquidity and growth indicators. The performance management process ensures that all goals are appropriately cascaded down to respective business units and employees.

In determining the amount of variable remuneration, the Bank starts from setting specific targets, establishing market comparable bottom-up, setting a profit target and other qualitative performance measures that would result in a target top-down bonus pool. The bonus pool is then adjusted to take account of risk via the use of risk-adjusted measures.

The NRC carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The NRC demonstrates that its decisions are consistent with an assessment of the Bank's financial condition and future prospects.

The Bank uses a formalised and transparent process to adjust the bonus pool for quality of earnings. It is the Bank's objective to pay out bonuses out of realised and sustainable profits. If the quality of earnings is not strong, the profit base could be adjusted based on the discretion of the NRC.

For the Bank to have any funding for distribution of a bonus pool, thresholds of financial targets have to be achieved. The performance measures ensure that the total variable remuneration is generally considerably contracted where subdued or negative financial performance of the Bank occurs. Furthermore, the target bonus pool, as determined above, is subject to risk adjustments in line with the risk adjustment and linkage framework.

Remuneration of control functions

The remuneration level of staff in the control and support functions allows the Bank to employ qualified and experienced personnel in these functions. The Bank ensures that the mix of fixed and variable remuneration for control and support function personnel is weighted in favour of fixed remuneration. The variable remuneration of control functions is based on function-specific objectives, and is not to be determined by the individual financial performance of the business area they monitor.

The Bank's performance management system plays a major role in deciding the performance of the support and control units on the basis of the objectives set for them. Such objectives are more focused on non-financial targets that include risk, control, compliance and ethical considerations; as well as the market and regulatory environments, apart from value-adding tasks which are specific to each unit.

Variable remuneration for business units

The variable remuneration for the business units is primarily decided by the key performance objectives set through the performance management system of the Bank. Such objectives contain financial and non-financial targets, including risk control, compliance and ethical considerations, as well as the market and regulatory environments.

a) Information relating to the design and structure of remuneration process;

The Policy seeks to assist in creating an efficient process, by acting as a point of reference in relation to the variable remuneration policies and procedures followed by the HR Department within the Bank in compliance with the Saudi Arabia Monetary Authority ("SAMA")'s Rules on Compensation Practices ("SAMA Regulations").

Review and Approval of the Manual

Any material changes in the operating environment or business model, or changes in applicable laws shall trigger an immediate ad-hoc review to ensure that the Policy remains in line with the Bank's strategy, practices, and business context at all times.

Modifications to the Policy that result in major changes to the principles and rules underpinning variable remuneration shall be endorsed by the NRC and referred to the Board of Directors for approval. Procedural or minor changes, clarifications and operational mechanisms will be approved by NRC.

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34. REMA - Remuneration policy (continued)

Implementation

The Chief Human Resources Officer ("CHRO") shall be responsible for ensuring that the policies and procedures in this Policy are adhered to by the respective staff. Any exceptions to the policies and procedures shall have to be brought to the attention of the CHRO and signed off by him/ her and reported to the NRC. All material breaches shall be immediately reported to the CHRO who will report the event to the NRC for further action.

All employees of the Bank are also responsible for implementation of this Policy.

Applicable Law

The Policy is established in accordance with the Labour Laws in the Kingdom of Saudi Arabia.

Should there be any difference in substance or interpretation between this Policy and the Labour Laws or applicable SAMA regulations, then the Labour Laws and applicable SAMA regulations shall prevail.

General Principles

The variable remuneration policies and procedures set forth in this Policy are enforceable towards all employees in the Bank as applicable.

This Policy complements the Employment Contracts, except where the terms of the Employment Contract are more favourable (but subject to being compliant with the SAMA regulations).

Employees must be informed of these practices, policies and procedures upon negotiation and urged to sign an acknowledgement before accepting employment.

Any condition that contradicts with the provisions of this Policy, and any acquittal or reconciliation regarding the rights of an employee arising under this document and during the validity of the Employment Contracts shall be made null and void unless it is of more benefit to the employee (but subject to being compliant with the SAMA regulations).

GOVERNANCE OF VARIABLE REMUNERATION

Overview

It is the Bank's basic compensation philosophy to provide a competitive level of total compensation to attract, motivate and retain qualified and competent employees. The Bank's variable remuneration policy will be driven primarily by a performance based culture that aligns employee interests' with those of the shareholders of the Bank. The variable remuneration policy should ensure effective alignment of remuneration with prudent risk-taking by senior management in the conduct of business.

A robust and effective governance framework ensures that the Bank operates within clear parameters of its compensation strategy and policy. All compensation matters, and overall compliance with regulatory requirements, are overseen by the Governance, Nomination and Remuneration Committee of the Board (GNRC).

Design, approval and oversight of the variable remuneration policy

The Board of Directors must actively oversee the remuneration system's design and operation for senior management and risk-takers.

The Bank is governed by SAMA which prescribes certain guidance and regulations in relation to developing sound remuneration practices for high earners who are approved persons and material risk takers (together "covered staff"). For the purpose of this Policy, guidance will be issued specifically for high earners who are covered staff and the Bank's policy for other non-covered staff.

The GNRC must ensure all persons must be remunerated fairly and responsibly. The Bank's remuneration policies and practices must be designed to reduce employees' incentives to take excessive and undue risk. The GNRC will be responsible for approving the variable remuneration policy of the Bank, and overseeing its implementation.

In the design and oversight of the Bank's variable remuneration policies, the GNRC may take into account the inputs provided by all competent independent corporate functions, namely risk management, financial control, compliance, human resources and strategic planning.

The Bank's variable remuneration policy will be consistent with and promotes sound and effective risk management. The variable remuneration policy will not encourage excessive risk taking and should enable the Bank to achieve and maintain a sound capital base.

The GNRC will endorse and the Board of Directors will approve any subsequent material exceptions or changes to the variable remuneration policy and carefully consider and monitor their effects.

34. REMA - Remuneration policy (continued)

Review of the remuneration policy

The GNRC ensures that the remuneration policy of the Bank will be reviewed on an annual basis at a minimum. Such central and independent reviews assess whether the overall remuneration system:

- operates as intended (in particular, that all agreed plans/programs are being covered; that the remuneration pay-outs are appropriate, and that the risk profile, long-term objectives and goals of the Bank are adequately reflected); and
- is compliant with applicable laws, regulations, principles and standards.

Where periodic reviews reveal that the remuneration system does not operate as intended or prescribed, the GNRC will ensure that a timely remedial plan is put in place.

Variable remuneration governance structure

The governance of the variable remuneration policies of the Bank rests with the GNRC of the Board. In addition to human resources department, the GNRC may engage for assistance a number of relevant control and support functions namely the risk management, finance and compliance departments.

The above functions shall work closely with the GNRC to assist in determining the overall variable remuneration strategy applicable to the Bank, having regard to the promotion of effective risk management. This will include establishing an effective variable remuneration framework to determine performance management, risk adjustment and the linkages to reward.

The procedures for setting variable remuneration should allow risk and compliance functions to have input where those functions have concerns regarding: 1) the impact on staff behaviour, and 2) the riskiness of the business undertaken.

b) Information relating to the ways in which risks are taken into account in the remuneration process;

Risk assessment framework

The risk assessment framework of GIB aligns variable remuneration to the risk profile of the Bank, and also ensures that the remuneration policy reduces employees' incentives to take excessive and undue risk. The Bank considers both quantitative measures and qualitative measures in the risk assessment process, and risk adjustments are applied to ensure that the Bank's remuneration policies are aligned to its risk appetite.

The NRC considers whether the variable remuneration policy is in line with the Bank's risk profile; and ensures that through the ex-ante and ex-post risk assessment framework and processes, remuneration practices where potential future revenues, whose timing and likelihood remain uncertain, are carefully evaluated.

Risk adjustments consider all types of risks, including intangible and other risks such as reputation risk, liquidity risk and the cost of capital. The Bank undertakes risk assessment to review financial and operational performance against the business strategy and risk performance, prior to distribution of the annual bonus. GIB ensures that total variable remuneration does not limit its ability to strengthen its capital base.

The bonus pool considers the performance of the Bank, which is considered within the context of its risk management framework. This ensures that the variable pay pool is shaped by risk considerations and Bank-wide notable events.

The size of the variable remuneration pool and its allocation within the Bank considers the full range of current and potential risks, including:

- The capital required to support the risks taken
- The level of liquidity risk assumed in the conduct of business
- Consistency with the timing and likelihood of potential future revenues incorporated into current earnings

The NRC keeps itself abreast of the Bank's performance against the risk management framework. The NRC will use this information when considering remuneration to ensure that return, risk and remuneration are aligned.

Risk adjustments

The Bank has an ex-post risk assessment framework, which is a qualitative assessment to back-test actual performance against risk assumptions.

In years where the Bank suffers material losses in its financial performance, the risk adjustment framework would work as follows:

- There would be considerable contraction of the Bank's total variable remuneration.
- At the individual level, poor performance by the Bank would mean individual KPIs are not met, and hence employee performance ratings would be lower.
- Reduction in value of deferred awards.
- Possible changes in vesting periods, and additional deferral applied to unvested rewards.
- Lastly, if the qualitative and quantitative impact of a loss incident is considered significant, a malus or clawback of previous bonus awards may be considered.

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34. REMA - Remuneration policy (continued)

Risk adjustments (continued)

The NRC, with Board approval, can rationalise and make the following discretionary decisions:

- Increase/ reduce the ex-post adjustment
- Consider additional deferrals or increase in the quantum of share awards
- Recovery through malus and clawback arrangements

Malus and clawback framework

The Bank's malus and clawback provisions allow the NRC to determine that, if appropriate, unvested elements under the deferred bonus plan can be forfeited/adjusted, or the delivered variable remuneration could be recovered in certain situations. The intention is to allow the Bank to respond appropriately if the performance factors, on which reward decisions were based, turn out not to reflect the corresponding performance in the longer-term. All deferred remuneration awards contain provisions that enable the Bank to reduce or cancel the awards of employees whose individual behaviour has had a materially detrimental impact on GIB during the concerned performance year. Any decision to take back an individual's award can only be taken by the NRC.

The Bank's malus and clawback provisions allow the Board to determine that, if appropriate, vested/unvested elements under the deferred bonus plan can be adjusted/cancelled in certain situations. These events include, but are not limited to, the following:

- Reasonable evidence of misbehaviour or material error by the employee causing harm to the Bank's reputation, or where the employee's actions have amounted to misconduct, incompetence or negligence.
- The employee's business unit suffers a material downturn in its financial performance, or a material risk management failure, or a material restatement of the financial statements of the Bank.
- The employee deliberately misleads the market and/or Shareholders in relation to the financial performance of the Bank.
- A significant deterioration in the financial health of the Bank, or the relevant line of business incurring losses.

Clawback can be used if the malus adjustment on the unvested portion is insufficient, given the nature and magnitude of the issue.

Components of variable remuneration

Variable remuneration has following main components:

Upfront cash	The portion of the variable remuneration that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.
Deferred cash	The portion of variable remuneration that is awarded and paid in cash on a pro-rata basis over a period of 3 years.

All deferred awards are subject to malus provisions.

c) Description of the ways in which the bank seeks to link performance during a performance measurement period;

The performance of all employees is evaluated in at the Year-end reviews. All employees receive constructive feedback on performance at the Mid-year performance 'check-point'. The performance evaluations of all employees are linked to set targets and measures stated in the Performance Score Card and recorded on-line in GIB's Performance Management System.

Performance is evaluated using the Scorecard methodology. Each employee agrees to certain objectives and is assessed during the year on the progress made on these objectives. Employees are also appraised against their business peers through a Calibration process which is applied to ensure fair and equitable performance evaluation.

Employees are assessed using GIB's On Track / Off Track assessment during the mid-year stage. The assessment provides a common standard for assessing and comparing performance and is used to drive consistency and fairness of performance assessment. The On Track / Off Track assessment has been defined as follows:

On Track:

- Meets or exceeds H1 performance and values-aligned behavioural expectations;
- Likely to receive a 'Good', 'Strong' or 'Top Performer' year-end performance assessment.

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34. REMA - Remuneration policy (continued)

Risk adjustments (continued)

Off Track:

- Does not meet H1 performance and/or Values- aligned behavioural expectations and;
- Needs to make improvement in order to receive a Good or Strong Year-End Performance Rating.

Employees are assessed against their performance using GIB's 5-point descriptive scale during the yearend. The scale has been defined as follows:

- Outstanding "Top Performer": Always exceeds performance expectations
- Excellent "Strong Performer": Frequently exceeds performance expectations
- Fully Effective "Good Performer": Achieves or mostly achieves performance expectations
- Partially Meets "Inconsistent Performer": Partially meet performance expectations
- Did Not Meet "Poor Performer": Does not meet performance expectations

The performance management methodology adapted at GIB focuses on the differentiation of individual performance and drives the variable reward strategy which encourages high performance.

The Bank uses a guided discretionary variable pay determination philosophy, once the bank financial results are produced, Management presents to the NRC a proposed overall variable pay pool which varies based on the bank overall financial performance.

The pool is adjusted based on each stream department results then further down a range is produced for each employee based on individual performance. Line managers then starts the allocation process within the guided ranges which ensures the differentiation between individual's recommendations based on the level of Individual performance. GIB overall pay philosophy is to "Pay for performance" therefore, by the current definition of performance levels explained above "*Partially Meets*" and "*Did not Meets*" are not awarded by bank policy.

d) Description of the ways in which the bank seeks to adjust remuneration to take account of longer team performance;

Explained under sections (a), (b) and (c)

e) Description of the ways in which the bank seeks to adjust remuneration to take account of longer team performance;

The Bank offer a main form of variable remuneration (cash). Where applicable, employees with variable pay is subject to cash deferral over 3 years.

The Bank also applies an incentive scheme to employees engaged in Retail Banking sales function. The scheme concentrates on junior employees only and are annually reviewed validated by HR, Business and approved by NRC.

The Bank takes into perspective the business nature, Employee level in addition to the total compensation factors when determining the individual's pay mix, this is validated and determined based on market benchmarking and other elements such as the individual performance and business performance. The Bank pay mix ranges between 70/30 fixed to variable for covered staff (business line and control functions) and between 50/50 fixed to variable for CEO, Deputy CEO and 5 most highly paid in business functions.

Basel 3 Pillar 3 Disclosures

As at 31st December 2019

35. REM1 - Remuneration awarded during the financial year

	SAR (thousands)		a	b
	Remuneration amount		Senior management	Other material risk-takers
1	Fixed remuneration	Number of employees	18	95
2		Total fixed remuneration (3 + 5 + 7)	11,045	31,668
3		Of which: cash-based	11,045	31,668
4		Of which: deferred		
5		Of which: shares or other share-linked instruments	-	-
6		Of which: deferred		
7		Of which: other forms	-	-
8		Of which: deferred		
9	Variable remuneration	Number of employees	18	95
10		Total variable remuneration (11 + 13 + 15)	147	135
11		Of which: cash-based	147	135
12		Of which: deferred	-	-
13		Of which: shares or other share-linked instruments	-	-
14		Of which: deferred	-	-
15		Of which: other forms	-	-
16		Of which: deferred	-	-
17		Total remuneration (2 + 10)	11,192	31,803

36. REM2 - Special payments

SAR (thousands)	Guaranteed bonuses		Sign-on awards		Severance payments	
	Number of employees	Total amount	Number of employees	Total amount	Number of employees	Total amount
Senior management	0	0	1	375	0	0
Other material risk-takers	0	0	0	0	0	0

37. REM3 - Deferred remuneration

There was no deferred renumeration paid by the bank during this year.

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