Gulf International Bank – Saudi Arabia

FINANCIAL STATEMENTS

For the year ended 31st December 2020 and Independent Auditors Report

بنك الخليج الدولي

Building a better working world

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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)

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 2020, and the statement of income, statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, 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 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA").

Basis for Opinion

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

Other Information included in the Bank's 2020 Annual Report

Management is responsible for the other information in the Bank's annual report. Other information consists of the information included in the Bank's 2020 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.

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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) (continued)

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 IFRS that are endorsed in Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, , 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 intends 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, are 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 the management.

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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) (continued)

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

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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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) (continued)

Report on other legal and regulatory requirements

Based on the information that has been made available to us while performing our audit procedures, 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 year ended 31 December 2020.

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10 Shaban 1442 H
(23 March 2021)

شركة ارنست ويونغ وشركاهم محاسبون قانونيون
ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45
ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS

KPMG Al Fozan & Partners
Certified Public Accountants

STATEMENT OF FINANCIAL POSITION
As at 31st December 2020

	Note	2020 SAR' 000	2019 SAR' 000
ASSETS			
Cash and balances with Central Bank	4	8,924,059	8,243,841
Due from banks and other financial institutions	5	1,267,331	1,448,087
Investments held at fair value through statement of income	6	224,465	203,621
Investments held at fair value through other comprehensive Income	6	370,052	381,079
Investments held at amortised cost	6	2,566,536	2,189,046
Positive fair value of derivatives	12	284,991	160,959
Loans and advances, net	7	18,761,718	17,490,442
Property and equipment, net	8	65,820	76,683
Intangible assets	9	47,036	50,883
Right-of-use assets	11	217,943	235,981
Other assets	10	152,420	146,157
Total assets		32,882,371	30,626,779
LIABILITIES AND EQUITY			
Liabilities			
Due to banks and other financial institutions	13	2,320,715	578,469
Customers' deposits	14	22,368,371	21,716,758
Negative fair value of derivatives	12	324,578	175,739
Government grant	33	23,182	-
Lease liabilities		213,278	224,542
Other liabilities	15	573,094	424,392
Total liabilities		25,823,218	23,119,900
Equity			
Share capital	16	7,500,000	7,500,000
Statutory reserve	17	1,753	1,753
Fair value reserve		(8,982)	2,045
(Accumulated losses)/retained earnings		(433,618)	3,081
Total equity		7,059,153	7,506,879
Total liabilities and equity		32,882,371	30,626,779

The financial statements were approved by the Board of Directors on16 February 2021 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 36 form an integral part of these financial statements

STATEMENT OF INCOME
For the year ended 31st December 2020

	Notes	2020 SAR'000	For the period from 3rd April 2019 to 31st December 2019 SAR'000
Special commission income	19	**686,341**	781,039
Special commission expense	19	**(225,233)**	(381,392)
Net special commission income		**461,108**	399,647
Fee and commission income	20	**98,188**	60,956
Fee and commission expense	20	**(3,942)**	(3,603)
Net fee and commission income		**94,246**	57,353
Exchange income, net		**26,442**	15,445
Gain/(Loss) on investments at FVTPL, net		**20,844**	(681)
Dividend income		**10,827**	13,453
Gain on other FVTPL financial instruments, net		**2,916**	4,669
Other operating income		**11,251**	3,368
Total operating income for the year/period		**627,634**	493,254
Salaries and employees'-related expenses	21	**(264,264)**	(187,390)
Rent and premises-related expenses		**(14,678)**	(14,016)
Depreciation and amortization	8, 9 11	**(79,920)**	(63,896)
Other general and administrative expenses	22	**(168,467)**	(115,297)
Operating expenses before credit impairment charge for the year/period		**(527,329)**	(380,599)
Impairment charge for expected credit losses, net	7	**(524,156)**	(121,841)
Impairment charge on investments, net	6	**2,662**	(1,062)
Impairment (charge)/reversal on other financial assets		**(5,308)**	19,274
Total operating expenses for the year/period		**(1,054,131)**	(484,228)
Net operating (loss) / income for the year/period		**(426,497)**	9,026
Zakat for the year/period	23	**(11,498)**	(2,017)
Net (loss) / income for the year / period		**(437,995)**	7,009
Earnings per share (Expressed in SAR per share)			
Basic and diluted earnings per share	16	**(0.584)**	0.009

The accompanying notes 1 to 36 form an integral part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31st December 2020

	2020 SAR'000	For the period from 3 April 2019 to 31 December 2019 SAR'000
Net (loss) / income for the year / period	**(437,995)**	7,009
Other comprehensive income		
Items that will not be reclassified to statement of income in subsequent periods		
- Fair Value through Other Comprehensive income (FVOCI) equity investments:		
- Net change in fair value	**(11,027)**	(3,488)
- Actuarial gains on defined benefit pension plans	**1,296**	3,358
Total other comprehensive (loss) / income for the year / period	**(447,726)**	6,879

The accompanying notes 1 to 36 form an integral part of these financial state

STATEMENT OF CHANGES IN EQUITY
For the years ended 31st December 2020 and 2019

	Share capital SAR'000	Statutory reserve SAR'000	Fair value reserve SAR'000	Retained earnings/ (accumulated losses) SAR'000	Total equity SAR'000
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
At 1 January 2020	7,500,000	1,753	2,045	3,081	7,506,879
Net loss for the period	-	-	-	(437,995)	(437,995)
Net change in fair value of equity investments classified as fair value through other comprehensive income	-	-	(11,027)	-	(11,027)
Actuarial gain on defined benefit pension plan	-	-	-	1,296	1,296
Total comprehensive loss for the period	-	-	(11,027)	(436,699)	(447,726)
At 31st December 2020	**7,500,000**	**1,753**	**(8,982)**	**(433,618)**	**7,059,153**

The accompanying notes 1 to 36 form an integral part of these financial statement

STATEMENT OF CASH FLOWS
For the year ended 31st December 2020

OPERATING ACTIVITIES	Note	2020 SAR'000	For the period from 3 April 2019 to 31 December 2019 SAR'000
Net (loss) / income before zakat		(426,497)	9,026
Adjustments to reconcile net (loss) / income before zakat to net cash flow from operating activities:			
Net accretion of discount on financial assets at amortized cost		(1,628)	(4,066)
Depreciation of property and equipment		26,873	24,787
Amortisation of intangibles		24,978	16,997
Depreciation of right of use		28,069	22,112
Write off		113	4,773
Impairment (reversal)/charge for investments, net		(2,662)	1,062
Impairment charge for credit losses, net		524,156	121,841
Impairment charge/(reversal) for other financial assets		5,308	(19,274)
Unrealized (gain)/loss on investments		(20,844)	681
		157,866	177,939
Net (increase) / decrease in operating assets:			
Statutory deposit with Central Bank		(108,671)	279,183
Due from banks and other financial institutions		-	(30,018)
Positive fair value of derivative financial instruments		(124,032)	(63,062)
Loans and advances		(1,795,432)	(758,113)
Other assets		(11,571)	(33,510)
Net increase in operating liabilities:			
Due to banks and other financial institutions		1,742,246	48,731
Negative fair value of derivatives		148,839	70,676
Customers' deposits		651,613	1,773,080
Other liabilities		161,682	49,475
Net cash generated from operating activities		822,540	1,514,381
INVESTING ACTIVITIES			
Purchase of investments		(413,200)	(434,923)
Proceeds from sale of investments		40,000	731,163
Purchase of property and equipment and intangible assets		(37,254)	(55,356)
Net cash (outflow) / inflow from investing activities		(410,454)	240,884
FINANCING ACTIVITIES			
Principal repayment of lease liabilities		(21,295)	(11,110)
Net increase in cash and cash equivalents		390,791	1,744,155
Cash and cash equivalents at the beginning of the period		8,703,467	6,959,312
CASH AND CASH EQUIVALENTS AT END OF THE YEAR / PERIOD	24	9,094,258	8,703,467
Special commission received during the year / period		757,763	904,779
Special commission paid during the year / period		(284,426)	(505,132)
Supplemental non-cash information			
Net change in fair value of equity investments classified as FVTOCI		(11,027)	(3,488)
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 36 form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS
At 31st December 2020

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 594 as at 31 December 2020 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'000
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	
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. The Bank's Capital amounting to SR 7.5 billion was injected equally by both shareholders of the Bank, Public Investment Fund and Gulf International Bank B.S.C. The amounts transferred to share capital were from due to banks and other financial institutions and customer deposits as non-cash transactions.

NOTES TO THE FINANCIAL STATEMENTS
At 31st December 2020

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	92.44%	The funds' investment objective is to generate returns by investing in equity instruments listed on Tadawul.
GIB Saudi Equity Fund	Kingdom of Saudi Arabia	99.46%	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	99.94%	The funds' investment objective is to generate returns by investing in MENA equity instruments.
GIBC Investment Fund 15	Kingdom of Saudi Arabia	100%	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 subsidiaries, nor its investments in GIB Opportunistic Saudi Equity Fund, GIB Saudi Equity Fund, GIB Opportunistic MENA Equity Fund, GIBC Investment Fund 15 and Dar Enjaz Gulf Real Estate Company 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) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued 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 on a going concern basis 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.

NOTES TO THE FINANCIAL STATEMENTS
At 31st December 2020

2. Basis of preparation (continued)

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 December 31 of each Gregorian year, and the first fiscal year starts from the date of commercial registration (April 3, 2019) to December 31, 2019. The 2019 comparative financial statements have been prepared for the period from April 3, 2019 to December 31, 2019.

e) Critical accounting judgements, estimates and assumptions

The preparation of the financial statements in conformity with IFRS that are endorsed in the KSA and other standards and pronouncements that are endorsed by SOCPA, requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the 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.

The COVID-19 pandemic continues to disrupt global markets as many geographies are experiencing a "second wave" of infections despite having previously controlled the outbreak through aggressive precautionary measures such as imposing restrictions on travel, lockdowns and strict social distancing rules. The Government of Kingdom of Saudi Arabia ("the Government") however has managed to successfully control the outbreak to date, owing primarily to the unprecedented yet effective measures taken by the Government, following which the Government has ended the lockdowns and has taken phased measures towards normalization.

Recently, number of COVID-19 vaccines have been developed and approved for mass distribution by various governments around the world. The Government has also approved a vaccine which is currently available for healthcare workers and certain other categories of people and it will be available to the masses in general during 2021. Despite the fact that there are some uncertainties around the COVID-19 vaccine such as how long the immunity last, whether vaccine will prevent transmission or not etc.; however, the testing results showed exceptionally high success rates. Hence, the Bank continues to be cognisant of both the micro and macroeconomic challenges that COVID-19 has posed, the teething effects of which may be felt for some time, and is closely monitoring its exposures at a granular level. The Bank has made various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 December 2020 about future events that the Bank believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these estimates. The underlying assumptions are also subject to uncertainties which are often outside the control of the Bank. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses, fair value measurement, and the assessment of the recoverable amount of non-financial assets. The impact of the COVID-19 pandemic on each of these estimates is discussed further in the relevant note of these financial statements.

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

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

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

The 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:

NOTES TO THE FINANCIAL STATEMENTS
At 31st December 2020

2. **Basis of preparation** (continued)

1. The selection of an estimation technique or modelling methodology, covering below key judgements and assumptions:
   - The Bank's internal credit grading model, which assigns Probability of Default (PD) to the individual grades
   - The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime ECL basis and the qualitative assessment
   - The segmentation of financial assets when their ECL is assessed on a collective basis
   - Development of ECL models, including the various formulas
   - Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models
   -
2. the selection of inputs for those models, and the interdependencies between those inputs such as macroeconomic scenarios and economic inputs.
   -

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.

3. **Summary of significant accounting policies**

Change in accounting policies

Below amendments to accounting standards and interpretations became applicable for annual reporting periods commencing on or after January 1, 2020:

(a) Interest Rate Benchmark Reform (Amendment to IFRS 9, IAS 39 and IFRS 7) (note 3.1)
(b) Definition of a Business (Amendments to IFRS 3
(c) Definition of Material (Amendments to IAS 1 and IAS 8)
(d) Amendments to References to the Conceptual Framework in IFRS Standards.

3.1 IBOR Transition (Interest Rate Benchmark Reforms)

A fundamental review and reform of major interest rate benchmarks is being undertaken globally. The International Accounting Standards Board ("IASB") is engaged in a two-phase process of amending its guidance to assist in a smoother transition away from Inter-bank Offered Rates ("IBOR").

Phase (1) - The first phase of amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures focused on hedge accounting issues. The final amendments, issued in September 2019, amended specific hedge accounting requirements to provide relief from the potential effects of the uncertainty caused by IBOR reform. The amendments are effective from January 01, 2020 and are mandatory for all hedge relationships directly affected by IBOR reform.

NOTES TO THE FINANCIAL STATEMENTS
At 31st December 2020

3. Summary of significant accounting policies (continued)

Accounting Standards issued but not yet effective

The accounting standards, amendments and revisions which have been published and are mandatory for compliance for the Bank's accounting year beginning on or after January 1, 2021 are listed below. The Bank has opted not to early adopt these pronouncements and they do not have a significant impact on the interim condensed consolidated financial statements.

- COVID-19 – Related Rent Concessions (Amendments to IFRS 16)
- IFRS 17 – "Insurance contracts", applicable for the period beginning on or after January 1, 2023.
- Amendments to IAS 1 - "Classification of Liabilities as Current or Non-current", applicable for the period beginning on or after January,1, 2022
- Onerous contracts – Cost of Fulfilling a contract (Amendments to IAS 37)
- Interest Rate Benchmark Reform – Phase 2 (amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
- Reference to Conceptual Framework (Amendments to IFRS 3)

Phase (2) - The second phase relates to the replacement of benchmark rates (IBOR) with alternative risk-free rates (RFR). The Phase 2 amendments are effective for annual periods beginning on or after January 01, 2021 and early application is permitted. Now that the Phase 2 Amendments have been finalised, the Bank will complete its assessment of the accounting implications of the scenarios it expects to encounter as the transition from IBORs to RFRs in order to accelerate its programs to implement the new requirements. The Phase 2 Amendments introduce new areas of judgement, the Bank needs to ensure it has appropriate accounting policies and governance in place. For the additional disclosures, the Bank will have to assess and implement required updates in the financial reporting systems and processes to gather and present the information required.

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

Classification of financial assets

On initial recognition, a financial asset is classified as measured at amortized 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 amortized 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 the statement of income.

NOTES TO THE FINANCIAL STATEMENTS
At 31st December 2020

3. **Summary of significant accounting policies** (continued)

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 amortized 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 realizing 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

- 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 realized.

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;

3. **Summary of significant accounting policies** (continued)

- 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.

Classification of financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost. Amortized 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").

Derecognition

- **Financial assets**

  The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the 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 derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in the statement of income.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and-repurchase transactions, as the 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 recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

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

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

- **Financial liabilities**

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

NOTES TO THE FINANCIAL STATEMENTS
At 31st December 2020

3. **Summary of significant accounting policies** (continued)

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 derecognized, and a new financial asset is recognized at fair value.

If the cash flows of the modified asset carried at amortized 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 recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in the statement of income. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

- **Financial liabilities**

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

Impairment

The Bank recognizes 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 recognized 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 2020

3. **Summary of significant accounting policies** (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 derecognized 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 amortized 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 reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

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

In making an assessment of whether an investment in sovereign debt is credit-impaired, the 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 amortized 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

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.

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 amortized over the life of the guarantee or the commitment. Subsequently, they are measured at the higher of this amortized 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 recognizes loss allowance.

Government grant

The Bank recognizes a government grant related to income, if there is a reasonable assurance that it will be received and the Bank will comply with the conditions associated with the grant. The benefit of a government deposit at a below-market rate of interest is treated as a government grant related to income. The below-market rate deposit is recognized and measured in accordance with IFRS 9 Financial Instruments. The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the deposit determined in accordance with IFRS 9 and the proceeds received. The benefit is accounted for in accordance with IAS 20. Government grant is recognized in statement of income on a systematic basis over the periods in which the bank recognizes as expenses the related costs for which the grant is intended to compensate. The grant income is only recognized when the ultimate beneficiary is the Bank. Where the customer is the ultimate beneficiary, the Bank only records the respective receivable and payable amounts.

Revenue / expenses recognition

Special commission income and expenses

Special commission income and expense are recognized in the statement of income 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 amortized 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 amortized cost and special commission income

The 'amortized 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 amortization 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 amortized cost of a financial asset before adjusting for any expected credit loss allowance.

NOTES TO THE FINANCIAL STATEMENTS
At 31st December 2020

3. **Summary of significant accounting policies** (continued)

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 amortized 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 amortized 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 amortized 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.

- **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.

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 amortized 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 2020

3. Summary of significant accounting policies (continued)

Settlement date accounting

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

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 recognized at the point when services are rendered i.e. when performance obligation is satisfied. Whereas for free services related to credit card, the Bank recognizes revenue over the period of time.

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 recognized in the statement of income unless they form part of a qualifying cash flow or net investment hedging relationship.

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

NOTES TO THE FINANCIAL STATEMENTS
At 31st December 2020

3. Summary of significant accounting policies (continued)

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.

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 recognized 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.

NOTES TO THE FINANCIAL STATEMENTS
At 31st December 2020

3. **Summary of significant accounting policies** (continued)

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.

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 amortized 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:

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

The principal or the most advantageous market must be accessible to by the 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, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

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

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 categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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.

3. Summary of significant accounting policies (continued)

At each reporting date, the investment committee analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the 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.

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.

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.

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

NOTES TO THE FINANCIAL STATEMENTS
At 31st December 2020

3. **Summary of significant accounting policies** (continued)

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

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

Intangible assets

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

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

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

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

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 income.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS
At 31st December 2020

3. Summary of significant accounting policies (continued)

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

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 the statement of income if the carrying amount of the right-of-use asset has been reduced to zero.

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

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.

End of service benefits (Defined benefit plan)

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 comprehensive income in the period in which they arise.

NOTES TO THE FINANCIAL STATEMENTS
At ended 31st December 2020

3. **Summary of significant accounting policies** (continued)

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 statement of income. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to zakat.

Islamic banking products
In addition to the conventional banking, the Bank offers its customers certain Islamic banking products, which are approved by its Shariah Board, as follows:

High level definitions of Islamic products

(i) **Murabaha** is an agreement whereby the 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.

4. Cash and balances with Central Bank

	2020 SAR'000	2019 SAR'000
Cash in hand	**34,491**	43,814
Statutory deposits (note 4.1)	**1,097,132**	988,461
Current account	**10,653**	10,566
Money market placements with SAMA (note 4.2)	**7,781,783**	7,201,000
	8,924,059	8,243,841

4.1 In accordance with the Banking Control Law and regulations issued by Saudi Central Bank (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 will mature on 3rd January 2021.

5. Due from banks and other financial institutions

	2020 SAR'000	2019 SAR'000
Current accounts	**486,980**	268,691
Money market placements	**780,351**	1,179,396
	1,267,331	1,448,087

The above includes Shariah based balances as below:

	2020 SAR'000	2019 SAR'000
Murabaha placements	**300,094**	375,268

The credit quality of due from banks and other financial institutions are assessed using external credit rating agencies. The above due from banks and other financial institutions balances are neither past due nor impaired.

NOTES TO THE FINANCIAL STATEMENTS
At 31st December 2020

6. Investments

a) Investment securities are classified as follows:

	2020 SAR'000	2019 SAR'000
Debt instruments	**2,566,536**	2,189,046
Equity investments	**428,527**	469,471
Mutual Funds	**165,990**	115,229
	3,161,053	2,773,746

All investment securities are in Saudi Arabia.

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 1st January 2020	664	2,713	**3,377**
Transfer to lifetime ECL not credit - impaired	-	-	**-**
Total transfers	-	-	**-**
Net remeasurement of loss allowance	51	(2,713)	**(2,662)**
Balance as at 31 December 2020	**715**	**-**	**715**

	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 31 December 2019	664	2,713	3,377

b) Investments held at fair value through statement of income

	2020 SAR' 000	2019 SAR' 000
Equities	**58,475**	88,392
Mutual fund	**165,990**	115,229
	224,465	203,621

c) Investments held at fair value through other comprehensive income

	2020 SAR' 000	2019 SAR' 000
Equity investments	**370,052**	381,079

NOTES TO THE FINANCIAL STATEMENTS
At 31st December 2020

6. Investments (continued)

a) Investments held at amortised cost.

	2020 Quoted SAR' 000	2020 Unquoted SAR' 000	2020 Total SAR' 000	2019 Quoted SAR' 000	2019 Unquoted SAR' 000	2019 Total SAR' 000
Debt securities - Fixed-rate securities	1,805,262	377,028	**2,182,290**	1,500,206	264,459	1,764,665
Debt securities - Floating-rate securities	382,000	2,961	**384,961**	382,000	45,758	427,758
Less: Allowance for Impairment	(568)	(147)	**(715)**	(634)	(2,743)	(3,377)
	2,186,694	379,842	**2,566,536**	1,881,572	307,474	2,189,046

The above includes Shariah based investments as below:

	2020 SAR' 000	2019 SAR' 000
Investment at amortized cost Sukuk	**2,311,579**	1,997,009

7. Loans and advances

2020 SAR'000

	Overdrafts	**Commercial loans**	**Retail loans**	**Total**
Performing loans and advances	760,708	17,109,503	721,890	18,592,101
Non-performing loans and advances	-	792,281	1,334	793,615
Gross loans and advances	760,708	17,901,784	723,224	19,385,716
Provisions for impairment	(910)	(606,632)	(16,456)	(623,998)
Loans and advances, net	**759,798**	**17,295,152**	**706,768**	**18,761,718**

Performing loans and advances held at amortized cost include SAR 269,812 thousand that are past due but not impaired

2019 SAR'000

	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 2020

7. Loans and Advances (continued)

The above includes Shariah based loans and advances as below:

	2020 SAR' 000	2019 SAR' 000
Credit cards		
Murabaha	13,335	11,050
Less: Credit Impairment Provision	(1,087)	(462)
	12,248	10,588

	2020 SAR' 000	2019 SAR' 000
Consumer loans		
Murabaha	709,889	484,007
Less: Credit Impairment Provision	(15,369)	(7,298)
	694,520	476,709

	2020 SAR' 000	2019 SAR' 000
Corporate loans		
Murabaha	12,576,162	12,316,734
Less: Credit Impairment Provision	(334,733)	(489,461)
	12,241,429	11,827,273

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

	2020 SAR'000			
	Stage 1 (12-month ECL)	**Stage 2 (Lifetime ECL not credit impaired)**	**Stage 3 (Lifetime ECL credit impaired)**	**Total**
At the beginning of year	53,163	74,090	671,414	798,667
Transfers during the year				
Transfer to Stage 1	1,369	(1,369)	-	-
Transfer to Stage 2	(3,041)	3,041	-	-
Transfer to Stage 3	-	(12,505)	12,505	-
Total transfers during the year	(1,672)	(10,833)	12,505	-
Net charge for the year - Commercial	40,532	18,163	454,695	513,390
Net charge for the year - Retail	8,707	1,870	189	10,766
Write-offs - Commercial	-	-	(696,686)	(696,686)
Write-offs - Retail	-	-	(2,139)	(2,139)
At the end of the year	100,730	83,290	439,978	623,998

NOTES TO THE FINANCIAL STATEMENTS
At 31st December 2020

7. Loans and Advances (continued)

	2019 SAR'000			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL not credit impaired)	Stage 3 (Lifetime ECL credit impaired)	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 year - Commercial	2,338	15,522	97,300	115,160
Net charge for the year - Retail	2,040	-	4,641	6,681
Write-offs - Commercial	-	-	(1,010,307)	(1,010,307)
Write-offs - Retail	-	-	(3,576)	(3,576)
At the end of the period	53,163	74,090	671,414	798,667

The retail portfolio of the Bank did not have any movement between stages during the year and period ended 31 December 2020 and 31 December 2019, respectively.

8. Property and equipment, net

	Leasehold improvements	**Furniture, equipment and vehicles**	**Work in progress**	**Total 2020**	Total 2019
			SR'000		
Cost					
At the beginning of the year/period	63,014	129,504	31,838	224,356	207,333
Additions	817	227	22,187	23,231	33,923
Transfers	13,111	18,230	(31,341)	-	-
Reclassification to intangibles	-	-	(7,108)	(7,108)	
Write offs	(1,383)	(10,710)	-	(12,093)	(16,900)
At 31st December	**75,559**	**137,251**	**15,576**	**228,386**	224,356
Accumulated depreciation					
At the beginning of the year/period	40,718	106,955	-	147,673	135,013
Charge for the year/period	10,160	16,713	-	26,873	24,787
Disposal	(1,314)	(10,666)	-	(11,980)	(12,127)
At 31st December 2020	**49,564**	**113,002**	**-**	**162,566**	147,673
Carrying amount 2020	**25,995**	**24,249**	**15,576**	**65,820**	
Carrying amount 2019	22,279	22,549	31,838		76,683

NOTES TO THE FINANCIAL STATEMENTS
At 31st December 2020

9. Intangible assets

	Software	Work in progress	Total 2020	Total 2019
			SAR'000	
Cost				
At the beginning of the period	115,240	11,090	126,330	104,897
Additions	9,729	4,294	14,023	21,433
Transfers	10,380	(10,380)	-	-
Reclassification from property and equipment	-	7,108	7,108	
At 31st December	**135,349**	**12,112**	**147,461**	126,330
Accumulated amortization				
At the beginning of the period	75,447	-	75,447	58,450
Charge for the year	24,978	-	24,978	16,997
At 31st December	**100,425**	**-**	**100,425**	75,447
Carrying amount 2020	**34,924**	**12,112**	**47,036**	
Carrying amount 2019	39,793	11,090		50,883

10. Other assets

	2020 SAR'000	2019 SAR'000
Accrued interest on derivatives	**10,576**	39,415
Prepayments	**34,474**	39,895
Due from related parties (note 30)	**72,992**	53,103
Outward Clearing Cheques	**99**	5,506
VAT Receivable	**3,446**	1,754
Others	**30,833**	6,484
	152,420	146,157

11. Leases

a) Right-of-use assets

Movement in right-of-use assets

	2020 SAR'000	2019 SAR'000
At the beginning of year/ period	**235,981**	75,377
Additions	**10,031**	182,716
Depreciation	**(28,069)**	(22,112)
At the end of the year/ period	**217,943**	235,981

b) Interest expense recognized in in the statement of income against lease liabilities amounted to SAR 3,102 thousand.

12. Derivatives

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

NOTES TO THE FINANCIAL STATEMENTS
At 31st December 2020

12. **Derivatives** (continued)

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

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

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

d) **Options**
Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at 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.

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 summarize 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.

NOTES TO THE FINANCIAL STATEMENTS
At 31st December 2020

12. Derivatives (continued)

			2020 SAR'000		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	242,114	(244,476)	8,194,751	-	-	2,523,146	5,671,605
Currency swaps	-	-					
Commission rates futures and options	42,211	(42,229)	1,874,028	-	86,969	1,787,059	-
Forward foreign exchange contracts	201	(201)	726,430	126,440	599,990	-	-
- held as fair value hedges							
Commission rate swaps - loans	420	(37,373)	820,302	-	-	445,568	374,734
Commission rate swaps - deposits	45	(299)	1,589,831	-	1,142,855	446,976	-
	284,991	(324,578)	13,205,342	126,440	1,829,814	5,202,749	6,046,339

			2019 SAR'000		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	-
	160,959	(175,739)	16,409,365	88,443	3,463,667	5,458,400	7,398,855

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.

		2020 SAR'000				
Description of hedged items	**Fair value**	**Hedge inception value**	**Risk**	**Hedging instrument**	**Positive fair value**	**Negative fair value**
Commission rate swaps - loans	(36,953)	820,302	Fair Value	Commission Rate Swap	420	(37,373)
Commission rate swaps - deposits	(254)	1,589,831	Fair Value	Commission Rate Swap	45	(299)

NOTES TO THE FINANCIAL STATEMENTS
At 31st December 2020

12. **Derivatives** (continued)

	2019 SAR'000					
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

	2020 SAR'000	2019 SAR'000
Current accounts	**46,191**	26,460
Money market deposits	**2,274,524**	552,009
	2,320,715	578,469

Money market placements include profit free deposits from SAMA with tenures ranging from 1 to 4.75 years in order to offset the modification losses that the Bank is expected to incur in deferring the payments as disclosed in note 33.

The above include Shariah based balances as follows:

	2020 SAR'000	2019 SAR'000
Murabaha placements	**202,991**	-

14. Customers' deposits

	2020 SAR'000	2019 SAR'000
Demand deposits	**11,951,324**	7,592,423
Saving accounts	**690,854**	90,049
Time deposits	**8,838,742**	13,773,492
Others	**887,451**	260,794
	22,368,371	21,716,758

The above include foreign currency deposits as follows:

	2020 SAR'000	2019 SAR'000
Demand	**1,275,898**	468,278
Time	**427,701**	618,227
Others	**8,636**	18,110
	1,712,235	1,104,615

Time deposits include deposits taken under Islamic based contracts, of SAR 6,807,484 and SAR 11,507,294 in 2020 and 2019, respectively.

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The above include Shariah approved customer deposits as below

	2020 SAR' 000	2019 SAR' 000
Demand		
Murabaha	853,918	104,332
Time		
Murabaha	274,789	455,248
	1,128,707	559,580

15. Other liabilities

	2020 SAR' 000	2019 SAR' 000
Accrued interest derivatives	10,289	18,990
Withholding tax payables	8,833	8,258
Due to related parties (note 30)	46,060	20,803
Accrued expenses	50,178	61,130
VAT payable	3,702	1,065
End of service benefits (note 25)	50,242	45,204
Loss allowance on loan commitment and financial guarantee contract	179,517	174,209
Allowance for zakat	11,497	2,017
Deferred LC/LG fees	19,689	26,121
SADAD Payable	44,685	4,883
Bankers Cheques Payable	36,954	698
Deferred Loan Fees	39,549	28,409
Others	71,899	32,605
	573,094	424,392

16. Share capital

The authorised, issued and fully paid share capital at 31 December 2020 comprised 750 million shares of SAR 10 each. Basic and diluted earnings per share for the period ended 31 December 2020 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:

	31 December 2020 %	31 December 2019 %
Gulf International Bank BSC	50%	50%
Public Investment Fund	50%	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, after deducting losses brought forward, until this reserve equals the paid-up capital of the Bank.

18. Commitments and contingencies

a) Legal proceedings

As at December 31, 2020, there were no significant legal proceedings outstanding against the Bank.

b) Capital commitments

As at December 31, 2020 the Bank had capital commitments of SAR 52.7 million (2019: SAR 60.2 million) in respect of property, equipment and intangible purchases.

NOTES TO THE FINANCIAL STATEMENTS
At 31st December 2020

18. Commitments & Contingencies (continued)

c) 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:

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

For the years ended 31st December 2020 and 2019	2019 SAR'000 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
	2,538,045	5,305,415	3,493,623	45,660	11,382,743

The outstanding unused portion of commitments as at December 31, 2020 which can be revoked unilaterally at any time by the Bank, amounts to SAR 4,466 million (2019: 8,229 million).

NOTES TO THE FINANCIAL STATEMENTS
At 31st December 2020

18. Commitments & Contingencies (continued)

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

	2020 SAR'000	2019 SAR'000
Corporate	**10,818,617**	10,053,696
Banks and other financial institutions	**1,336,516**	1,329,047
	12,155,133	11,382,743

19. Special commission income and expense

	2020 SAR'000	For the period from 3rd April 2019 to 31 December 2019 SAR'000
Special commission income		
Investments	**67,295**	57,854
Due from banks and other financial institutions	**66,261**	125,738
Loans and advances	**552,785**	597,447
	686,341	781,039

	2020 SAR'000	For the period from 3rd April 2019 to 31 December 2019 SAR'000
Special commission expense		
Due to banks and other financial institutions	**4,489**	8,116
Lease liabilities	**12,298**	2,077
Customers' deposits	**208,446**	371,199
	225,233	381,392
Special commission income, net	**461,108**	399,647

The breakup of special commission income from Shariah products is as follows:

	2020 SAR' 000	For the period from 3rd April 2019 to 31 December 2019 SAR'000
Investments		
Amortised Cost		
Sukuks	**56,893**	38,604
Due from banks and other financial institutions		
Murabaha	**3,378**	5,505
Loans and advances		
Murabaha	**374,202**	511,361
Total special commission income	**434,473**	555,470

NOTES TO THE FINANCIAL STATEMENTS
At 31st December 2020

19. Special commission income and expense (continued)

The breakup of special commission expense from Shariah products is as follows:

	2020 SAR' 000	For the period from 3rd April 2019 to 31 December 2019 SAR'000
Due to banks and other financial institutions		
Murabaha	124	-
Customer deposits		
Murabaha	139,542	329,358
Total special commission expense	139,666	329,358

20. Fee and commission income and expenses

	2020 SAR' 000	For the period from 3rd April 2019 to 31 December 2019 SAR'000
Fees and commission income		
Letters of credit	34,686	18,516
Letters of guarantee	43,827	27,049
Other banking services	19,675	15,391
	98,188	60,956
Fees and commission expenses		
Bank charges and commission	(3,112)	(2,241)
Other fees and commission expenses	(830)	(1,362)
	(3,942)	(3,603)
Fees and commission income, net	94,246	57,353

	2020 SAR' 000	For the period from 3rd April 2019 to 31 December 2019 SAR'000
Point in time:		
Other banking services	14,208	10,143
Over time:		
Trade finance	78,513	45,565
Fees on credit facilities	5,467	5,248
Total	98,188	60,956

21. Salaries and employees' related expenses

The following table summarizes 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 December 31, 2020, and the forms of such payments.

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At 31st December 2020

21. Salaries and employees' related expenses (continued)

		2020		
Category	**Number of employees**	**Fixed compensation SAR 000**	**Variable compensation SAR 000**	**Total SAR'000**
Senior executives requiring SAMA no objection	18	14,990	108	15,098
Employees engaged in risk taking activities	103	42,071	196	42,267
Employees engaged in control functions	163	37,786	4,448	42,234
Other employees	310	74,217	1,779	75,996
	594	**169,064**	**6,531**	**175,595**
Outsourced employees	206	29,314	-	29,314
	800	**198,378**	**6,531**	**204,909**
Variable compensation accrued				17,626
Other employee related benefits				41,729
Total Salaries and employee related expenses per financial statements				**264,264**

		For the period from 3rd April 2019 to 31st December 2019		
Category	Number of employees	Fixed compensation SAR 000	Variable compensation SAR 000	Total SAR'000
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	21,491	-	21,491
	718	146,595	3,192	149,787
Variable compensation accrued				24,749
Other employee related benefits				12,854
Total Salaries and employee related expenses per financial statements				187,390

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

22. Other general and administrative expenses

	2020 SAR' 000	For the period from 3rd April 2019 to 31st December 2019 SAR' 000
Repair and maintenance	**48,763**	28,893
Advertising	**20,304**	16,473
Managed services	**10,676**	4,625
Legal, consultancy & statutory fees	**14,353**	13,602
Communication & data information services	**18,623**	9,274
VAT expenses	**15,235**	8,544
Depositors' protection scheme expenses	**8,700**	6,365
Directors' remuneration (note 30)	**3,493**	4,062
Others	**28,320**	23,459
	168,467	115,297

NOTES TO THE FINANCIAL STATEMENTS
At 31st December 2020

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 31 December 2020.The Bank has accrued zakat liability of SAR 11,498 thousand for the period ended 31 December 2020 (31 December 2019:2,017)

The Bank has filled zakat declaration with General Authority of Zakat and Tax (GAZT) for the period from 3rd April 2019 to 31st December 2019. However, no assessment has been raised by GAZT.

24. Cash and cash equivalents

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

	2020 SAR'000	2019 SAR'000
Cash and balances with SAMA (excluding statutory deposit)	**7,826,927**	7,255,380
Due from banks and other financial institutions with original maturities of three months or less	**1,267,331**	1,448,087
	9,094,258	8,703,467

25. End of service benefits

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

	2020 SAR' 000	2019 SAR' 000
At the beginning of the year/period	**45,204**	41,261
Charge for the year/period	**8,527**	8,422
Interest cost during the year/period	**1,461**	1,993
Benefits paid during the year/period	**(3,654)**	(3,114)
Unrecognized actuarial gain	**(1,296)**	(3,358)
At the end of the year/period	**50,242**	45,204

a. Charge for the period

	2020 SAR' 000	For the period from 3rd April 2019 to 31st December 2019 SAR' 000
Current service cost	**8,527**	8,422
Interest cost	**1,461**	1,993
	9,988	10,415

b. Re-measurement recognized in Other comprehensive income

	2020 SAR' 000	For the period from 3rd April 2019 to 31st December 2019 SAR' 000
Gain from change in financial assumptions	**15**	28
Gain from change in demographic assumptions	**-**	5
Gain from change in experience assumptions	**1,281**	3,325
	1,296	3,358

NOTES TO THE FINANCIAL STATEMENTS
At 31st December 2020

25 End of Service Benefits (continued)

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

	2020	2019
Discount rate	**2.35%**	3.05%
Expected rate of salary increase	**1.95%**	2.65%
Normal retirement age	**60 years**	60 years

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

d. Sensitivity of actuarial assumptions

The table below illustrates the sensitivity of the Defined Benefit Obligation valuation as at December 31, 2020 to the discount rate (2.35%), salary escalation rate (1.95%), withdrawal assumptions and mortality rates.

	SAR'000		
2020	**Impact on defined benefit obligation**		
Base Scenario	**Change in assumption**	**Increase in assumption**	**Decrease in assumption**
Discount rate	0.5%	(2,641)	2,875
Expected rate of salary increase	0.5%	2,871	(2,663)
Normal retirement age	1 year	(2,874)	(2,642)

	SAR'000		
2019	**Impact on defined benefit obligation**		
Base Scenario	**Change in assumption**	**Increase in assumption**	**Decrease in assumption**
Discount rate	0.5%	(2,368)	2,579
Expected rate of salary increase	0.5%	2,577	(2,387)
Normal retirement age	1 year	37	(18)

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

	2020 SAR'000	2019 SAR'000
Within the next 12 months (next annual reporting period)	**2,824**	3,066
Between 2 and 5 years	**16,912**	15,115
Beyond 5 years up to 10 years	**35,668**	31,428
Total expected payments	**55,404**	49,609

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

The average duration of the defined benefits plan obligation at 31 December 2020 is 10.95 years (31 December 2019: 10.92).

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.

NOTES TO THE FINANCIAL STATEMENTS
At 31st December 2020

26. Financial risk management (continued)

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.

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 12 and for commitments and contingencies in note 18.

NOTES TO THE FINANCIAL STATEMENTS
At 31st December 2020

26. Financial risk management (continued)

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

a- Geographical concentration

	2020 SAR'000					
	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Total
Assets						
Balance with SAMA	8,889,568	-	-	-	-	8,889,568
Due from banks and other financial institutions						
Current accounts	5,847	256,121	66,027	158,985	-	486,980
Money market placements	675,305	105,046	-	-	-	780,351
Investments, net						
Held as amortized cost	2,566,536	-	-	-	-	2,566,536
Held as FVOCI	370,052	-	-	-	-	370,052
Held as FVTPL	224,465	-	-	-	-	224,465
Positive fair value of derivatives						
Held for trading	177,687	106,839	-	-	-	284,526
Held as fair value hedges	3	462	-	-	-	465
Loans and advances, net						
Overdraft	759,798	-	-	-	-	759,798
Commercial loans	17,295,377	-	-	-	-	17,295,377
Retail loans	706,543	-	-	-	-	706,543
Other assets	58,703	20,418	36	-	-	79,157
Total	31,729,884	488,886	66,063	158,985	-	32,443,818
Liabilities						
Due to banks and other financial institutions						
Current accounts	1,438,503	34,044	2,454	36	-	1,475,037
Money market deposits	170,603	675,075	-	-	-	845,678
Negative fair value of derivatives						
Held for trading	29,963	256,942	-	-	-	286,905
Held as fair value hedges		37,673	-	-	-	37,673

NOTES TO THE FINANCIAL STATEMENTS
For the years ended 31st December 2020 and 2019

26. Financial risk management (continued)

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

	2020 SAR'000					
	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Total
Customers' deposits						
Demand	12,721,959	28,081	-	-	-	**12,750,040**
Time	7,837,683	-	1,001,058			**8,838,741**
Saving	690,845	-	-	-	-	**690,845**
Others	88,745	-	-	-	-	**88,745**
Lease liabilities	213,278	-	-	-	-	**213,278**
Other liabilities	156,138	1	20	-	-	**156,159**
Total liabilities	**23,347,717**	**1,031,816**	**1,003,532**	**36**	**-**	**25,383,101**
Commitments and contingencies						
Letters of credit	1,115,278	-	-	-	362,671	**1,477,949**
Letters of guarantee	3,923,167	1,902,875	364,706	748,034	1,287,849	**8,226,631**
Acceptances	1,013,316	-	-	-	117,571	**1,130,887**
Irrevocable commitments to extend credit	1,319,666	-	-	-	-	**1,319,666**

Maximum Credit exposure (stated at credit equivalent amounts)

Commitments and contingencies						
Letters of credit	223,481				72,534	**296,015**
Letters of guarantee	2,358,638	940,049	182,546	276,701	644,496	**4,402,430**
Acceptances	1,013,315				117,571	**1,130,886**
Irrevocable commitments to extend credit	654,088					**654,088**

NOTES TO THE FINANCIAL STATEMENTS
For the years ended 31st December 2020 and 2019

26. Financial risk management (continued)

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

	2019 SAR'000					
	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 amortized 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
For the years ended 31st December 2020 and 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'000					
	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**	**-**	**22,863,026**
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)

	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Total
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 2020

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 amortized 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.

	2020			
	12-month ECL	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
	SAR '000			
Loans and advances to customers at amortized cost				
Grades 1-4: Low - fair risk	13,266,138	41,708	-	13,307,846
Grades 5-7: Watch list	4,280,193	1,004,062	-	5,284,255
Grades 8: Substandard	-	-	620,617	620,617
Grades 9: Doubtful	-	-	172,637	172,637
Grades 10: Loss	-	-	361	361
Carrying amount	**17,546,331**	**1,045,770**	**793,615**	**19,385,716**

	2019			
	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
	SAR '000			
Loans and advances to customers at amortized cost				
Grades 1-4: Low - fair risk	10,509,037	51,283	-	10,560,320
Grades 5-7: Watch list	5,233,997	1,093,584	472,895	6,800,476
Grades 8: Substandard	-	-	322,467	322,467
Grades 9: Doubtful	-	-	584,030	584,030
Grades 10: Loss	-	-	21,816	21,816
Carrying amount	15,743,034	1,144,867	1,401,208	18,289,109

	2020			
	12-month ECL	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
	SAR '000			
Debt investment securities at amortized cost				
Grades 1-4: Low - fair risk	2,566,536	-	-	2,566,536
Grades 5-7: Watch list	-			
Carrying amount	**2,566,536**	**-**	**-**	**2,566,536**

NOTES TO THE FINANCIAL STATEMENTS
At 31st December 2020

26. Financial risk management (continued)

26.2 Credit quality analysis

	31 December 2019			
	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
	SAR '000			
Debt investment securities at amortized 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 credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's quantitative modeling, the remaining lifetime PD is determined to have increased significantly. 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.

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).

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.

NOTES TO THE FINANCIAL STATEMENTS
At 31st December 2020

26. Financial risk management (continued)

26.2 Credit quality analysis (continued)

The internal ratings map directly to the external rating grades used by the international credit rating agencies as follows:-

Internal rating grade	Internal classification	Fitch and Standard & Poor's	Moody's
Investment grade			
Rating grade 1	Standard	AAA	Aaa
Rating grade 2	Standard	AA	Aa
Rating grade 3	Standard	A	A
Rating grade 4	Standard	BBB	Baa
Sub-investment grade			
Rating grade 5	Standard	BB	Ba
Rating grade 6	Standard	B	B
Rating grade 7	Standard	CCC	Caa
Classified			
Rating grade 8	Substandard	CC	Ca
Rating grade 9	Doubtful	C	C
Rating grade 10	Loss	D	-

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

NOTES TO THE FINANCIAL STATEMENTS
At 31st December 2020

26. Financial risk management (continued)

26.2 Credit quality analysis (continued)

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 analyzed 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 analyze 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 Chief Economist 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.

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 December 31, 2020 included the following ranges of key indicators.

KSA	**2021**	**2022**	**2023**
Base 50%	**Year 1**	**Year 2**	**Year 3**
GDP (%)	(0.2)	3.2	3.7
Surplus (% of GDP)	(10.8)	(9.05)	(8.85)
Positive 15%			
GDP (%)	0.8	4.2	4.7
Surplus (% of GDP)	(9.8)	(8.05)	(7.85)
Negative 35%			
GDP (%)	(1.2)	2.2	2.7
Surplus (% of GDP)	(11.8)	(10.05)	(9.85)

NOTES TO THE FINANCIAL STATEMENTS
At 31st December 2020

26. Financial risk management (continued)

26.2 Credit quality analysis (continued)

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) 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.

Consideration due to COVID-19

The Bank has updated its forward-looking variables (key economic drivers), refer above table. As at 31 December 2020, the scenario assumptions are updated to reflect the current situation of COVID-19. This included an assessment of the support of the Government's actions, the response of business and customers (such as repayment deferrals). These are considered in determining the length and severity of the forecast economic downturn. Probability weighting of each scenario is determined by management considering the risks and uncertainties surrounding the base case economic scenario. The key consideration for probability weightings in the current period is the continuing impact of COVID-19.

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%	184	31,111	2,942	2,157	380
Positive	25%	144	27,208	2,540	1,761	286
Negative	25%	250	35,671	3,411	2,624	495

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. For corporate exposures, corporate PD estimates are internally derived using the Bank's central default tendency for the Corporate portfolio, For financial institutions and sovereign government exposures, the PDs are based on external rating data of all global financial institutions rated by Standard & Poor's.

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

LGD is the magnitude of the likely loss if there is a default. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS
At 31st December 2020

26. Financial risk management (continued)

26.2 Credit quality analysis (continued)

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.

Consideration due to COVID 19

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

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

Credit-impaired loans
Credit-impaired loans and advances are graded 8 to 10 in the 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)

2020 - SAR'000

	Commercial Loans	**Retail Loans**	**Total**
From 1 day to 30 days	238,775	31,037	269,812
Total Loans & advances	**238,775**	**31,037**	**269,812**

2019 - SAR'000

	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

NOTES TO THE FINANCIAL STATEMENTS
At 31st December 2020

26. Financial risk management (continued)

26.2 Credit quality analysis (continued)

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

2020 - SAR'000

	Performing	Credit-impaired	Allowance for impairment	Loans & advances, net
Agriculture & Fishing	1,052,259	-	-	1,052,259
Manufacturing	1,693,510	65,758	(29,469)	1,729,799
Energy & Utilities	152,868	-	-	152,868
Building and Construction	1,391,317	121,774	(117,315)	1,395,776
Wholesale Retail Trade	3,360,195	285,399	(108,945)	3,536,649
Real Estate Business	1,319,793	-	-	1,319,793
Transportation	1,017,271	283,214	(183,067)	1,117,418
Services	393,416	36,136	-	429,552
Finance	4,225,719	-	(168,746)	4,056,973
Communication	225,158	-	-	225,158
Health Care	72,473	-	-	72,473
Petrochemical	1,359,659	-	-	1,359,659
Others	1,606,574	-	-	1,606,574
Retail	721,889	1,334	(16,456)	706,767
Total	**18,592,101**	**793,615**	**(623,998)**	**18,761,718**

Economic Sector risk concentration for the loans and advances (continued)

2019- SAR'000

	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 2020

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 realizable values. For financial assets that are credit impaired at the reporting period, quantitative information about the collateral held as security is needed to the extent that such collateral mitigates credit risk

The amount of collateral held as security for loans that are credit impaired as at December 31, 2020 are as follows

	2020 SAR '000	2019 SAR '000
Less than 50%	5,039	23,432
51-70%	-	-
More than 70%	229,022	124,299
	234,061	147,731

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.

NOTES TO THE FINANCIAL STATEMENTS
At 31st December 2020

27. Market risk (continued)

The Bank's VaR related information for the year and period ended 31 December 2020 and 31 December 2019 are as below, respectively.

	2020 SAR"000			
	Foreign Exchange Rate	**Special commission risk**	**Equity price risk**	**Overall risk**
VAR as at December 31, 2020	0.2	0.0	9.1	9.3
Average VAR for 2020	0.2	0.0	13.9	14.1

	2019 SAR"000			
	Foreign Exchange Rate	Special commission risk	Equity price risk	Overall risk
VAR as at December 31, 2019	29	0	8.3	8.3
Average VAR for 2019	73	1.1	12.6	12.7

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.

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 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 December 31, 2020 and 2019, including the effect of hedging instruments. All the banking book exposures are monitored and analyzed in US Dollars concentration and change. Sensitivities are disclosed in SAR thousands. Sensitivity of special commission income for +100/-100 bps increase in the basis of the US Dollar is SAR 64 million and SAR (64) million respectively for 2020 (SAR +/-63 million for 2019).

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.

NOTES TO THE FINANCIAL STATEMENTS
At 31st December 2020

27. Market risk (continued)

2020
SAR'000

	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	-	-	-	-	34,490	34,490
Balances with SAMA	7,781,784	-	-	-	1,107,785	8,889,569
Due from Banks and other financial institutions						
current accounts	-	-	-	-	486,981	486,981
money market placements	750,333	-	30,017	-	-	780,350
Investments, net						
Held as FVTPL	-	-	-	-	224,465	224,465
Held at amortised cost	57,914	174,071	1,536,584	797,967	-	2,566,536
Held as FVOCI	-	-	-	-	370,052	370,052
Positive fair value of derivatives						
Held for trading	80	230	85,354	198,862	-	284,526
Held as fair value hedges	-	21	444	-	-	465
Loans and advances, net						
Overdraft	759,798	-	-	-	-	759,798
Credit cards	12,248	-	-	-	-	12,248
Consumer loans	73,158	3,121	617,106	1,135	-	694,520
Commercial loans	16,019,904	1,275,248	-	-	-	17,295,152
Other assets	-	-	-	-	104,207	104,207
Total assets	**25,455,219**	**1,452,691**	**2,269,505**	**997,964**	**2,327,980**	**32,503,359**

2020
SAR'000

	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	-	-	-	-	46,191	46,191
Money market deposits	693,601	150,000	-	-	-	843,601
Customer deposits						
Demand	-	-	-	-	11,951,333	11,951,333
Saving	-	-	-	-	690,845	690,845
Time	5,338,797	3,499,945	-	-	-	8,838,742
Other	-	-	-	-	887,451	887,451
Negative fair value of derivatives						
Held for trading	80	231	83,108	203,486	-	286,905
Held as fair value hedges	-	156	5,534	31,982	-	37,672
Lease liabilities	-	3,805	55,491	153,982	-	213,278
Other liabilities	-	-	-	-	188,192	188,192
Share holders equity	-	-	-	-	7,059,153	7,059,153
Total Liabilities & shareholders' equity	**6,032,478**	**3,654,137**	**144,133**	**389,450**	**20,823,165**	**31,043,363**
commission rate sensitivity - On statement of financial position	19,422,742	(2,201,447)	2,152,372	608,513	(18,495,184)	1,459,996
commission rate sensitivity - Off statement of financial position	3,019,687	6,346,469	2,123,952	665,026	12,155,134	24,310,268
Total commission rate sensitivity gap	22,442,429	4,145,022	4,249,324	1,273,539	(6,340,050)	25,770,264
Cumulative commission rate sensitivity gap	22,442,429	26,587,451	30,836,775	32,110,314	25,770,264	137,747,233

NOTES TO THE FINANCIAL STATEMENTS
At 31st December 2020

27. Market risk (continued)

2019
SAR'000

	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
Other assets	-	-	-	-	146,157	146,157
Total assets	24,437,396	740,854	2,250,032	792,561	2,042,389	30,263,232

2019
SAR'000

	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	(13,858,608)	1,749,049
commission rate sensitivity - Off statement of financial position	2,538,045	5,305,415	3,493,623	45,660	11,382,743	22,765,486
Total commission rate sensitivity gap	14,504,314	4,258,457	5,595,826	537,887	(2,475,865)	24,514,535
Cumulative commission rate sensitivity gap	14,504,314	18,762,771	24,358,597	24,896,484	22,420,619	104,942,785

NOTES TO THE FINANCIAL STATEMENTS
At 31st December 2020

27. **Market risk** (continued)

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 amortized 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 31December 2020 and 31 December 2019, respectively, on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonable possible movement of the currency rate against SAR, with all other variables held constant, on the 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.

	2020	
Currency Exposures	**Change in currency rate in %**	**Effect on net income (SAR'000)**
USD	**+5/-5**	**3,608 /(3,608)**
EURO	**+5/-5**	**2,565/ (2,565)**
GBP	**+5/-5**	**9/(9)**
JPY	**+5/-5**	**15/(15)**

	2019	
Currency Exposures	Change in currency rate in %	Effect on net income (SAR'000)
USD	+5/-5	311 / (311)
EURO	+5/-5	4,471 / (4,471)
GBP	+5/-5	11 / (11)
JPY	+5/-5	4 / (4)

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:

	2020 SAR '000 Long/(short)	**2019 SAR '000 Long/(short)**
US Dollar	**72,164**	6,216
Japanese Yen	**293**	89,411
Euro	**51,309**	212
Pound Sterling	**187**	84
Others	**3,255**	2,116
	127,208	**98,039**

NOTES TO THE FINANCIAL STATEMENTS
At 31st December 2020

27. **Market risk** (continued)

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:

	2020	
Market Indices	**Change in Equity price%**	**Effect in SAR m**
Tadawul	-5%	(18.24)

	2019	
Market Indices	Change in Equity price%	Effect in SAR m
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.

Analysis of Financial Liabilities by remaining undiscounted contractual Maturities

The table below summarizes the maturity profile of the Bank's financial liabilities at 31 December 2020based 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.

NOTES TO THE FINANCIAL STATEMENTS
For the years ended 31st December 2020 and 2019

28. Liquidity risk (continued)

	2020 SAR '000					
	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	-	-	-	-	46,191	**46,191**
Money market deposits	693,052	153,009	-	-	-	**846,061**
Customer deposits						
Demand	-	-	-	-	11,951,333	**11,951,333**
Saving	-	-	-	-	690,845	**690,845**
Time	6,907,781	2,050,487	360,256	-	-	**9,318,524**
Other	-	-	-	-	887,451	**887,451**
Negative fair value of derivatives						
- Held for trading	80	231	83,108	203,486	-	**286,905**
Held as fair value hedges	-	156	5,534	31,982	-	**37,672**
Lease liabilities	6,659	19,693	79,039	212,370	-	**317,761**
Other liabilities					156,159	**156,159**
	7,607,572	**2,223,576**	**527,937**	**447,838**	**13,731,979**	**24,538,902**

	2019 SAR '000					
	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.

NOTES TO THE FINANCIAL STATEMENTS
For the years ended 31st December 2020 and 2019

29. Fair values of financial instruments (continued)

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.

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 2020 - SAR '000			
	Carrying value	Level 1	Level 2	Level 3	Total
At 31 December 2020					
Financial assets measured at fair value					
Investments at FVTOCI	370,052	364,924	-	5,128	370,052
Investments at FVTPL	224,465	224,465	-	-	224,465
Positive fair value of derivative financial instruments	284,991	-	284,991	-	284,991
Financial assets not measured at fair value					
Investments at amortized cost	2,566,536	-	2,488,513	164,077	2,652,590
Loans and advances, net	18,761,718	-	-	18,830,805	18,830,805
Cash and balance with SAMA	8,924,059	-	-	8,924,059	8,924,059
Due from banks and other financial institution	1,267,331	-	-	1,267,331	1,267,331
Other financial assets	104,207	-	-	104,207	104,207

		Fair value 2019 - SAR '000			
	Carrying value	Level 1	Level 2	Level 3	Total
At 31 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 amortized cost	2,189,046	-	2,085,093	211,749	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	104,207			104,207	104,207

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29. Fair values of financial instruments (continued)

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 '000			
	Carrying value	Level 1	Level 2	Level 3	Total
At 31 December 2020					
Financial liabilities measured at fair value					
Negative fair value of derivative financial instruments	324,578	-	324,578	-	324,578
Financial liabilities not measured at fair value					
Customers' deposits	22,368,371	-	-	22,144,372	22,144,372
Due to banks and other financial institution	2,320,715	-	-	2,320,715	2,320,715
Other financial liabilities	188,192	-	-	188,192	188,192

		Fair value SAR '000			
	Carrying value	Level 1	Level 2	Level 3	Total
At 31 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 December 31, 2019. Similarly, no transfers between level 1 and level 2 measurement classifications were made during the period ended December 31, 2020.

The Bank's financial instruments are accounted for under the historical cost method with the exception of trading securities, equity investment securities and derivative financial instruments, which are accounted for at fair value. The fair value represents the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Differences therefore can arise between book values under the historical cost method and fair value estimates. Underlying the definition of fair value is the presumption that the Bank is a going concern without any intention or requirement to curtail materially the scale of its operation or to undertake a transaction on adverse terms.

NOTES TO THE FINANCIAL STATEMENTS
For the years ended 31st December 2020 and 2019

29. Fair values of financial instruments (continued)

Generally accepted methods of determining fair value include reference to quoted prices (level 1 measurement) or to the pricing prevailing for similar financial instruments (level 2 measurement) and the use of unobservable inputs in estimation techniques such as discounted cash flow analysis (level 3 measurement).

The valuation methodologies applied are outlined below.

29.1) Investment at FVTPL

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

29.2) Investment at FVOCI

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

29.3) Loans and advances

The fair values (level 3) of loans on a floating interest rate basis are principally estimated at book value. The fair values (level 3) of impaired loans are estimated at the recoverable amount, measured as the present value of expected future cash flows discounted based on the Bank's weighted average discount rate. The fair values of fixed rate loans are estimated on a discounted cash flow basis utilising discount rates equal to prevailing market rates of interest in the respective currencies for loans of similar residual maturity and credit quality. The fair values (level 3) approximate the carrying values.

29.4) Other on-balance sheet items

The fair values of foreign exchange and derivative financial instruments are based on market prices, discounted cash flow techniques or option pricing models as appropriate. The fair values of all other on-balance sheet assets and liabilities approximate their respective book values due to their short-term nature.

29.5) Credit-related contingent items

There was no material fair value excess or shortfall in respect of credit-related off-balance sheet financial instruments, which include commitments to extend credit, standby letters of credit and guarantees, as the related future income streams reflected contractual fees and commissions actually charged at the balance sheet date for agreements of similar credit standing and maturity. Impairment provisions made in respect of individual transactions where a potential for loss has been identified are included in provisions for the impairment of loans and advances.

Reconciliation of Level 3 fair values

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

	2020 SAR '000	2019 SAR '000
At the beginning of year / period	7,976	8,594
Gain included in OCI		
Net change in fair value (unrealized)	(2,848)	(618)
At the end of year / period	5,128	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.

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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 December 31 resulting from such transactions included in the financial statements are as follows:

	2020 SAR'000	2019 SAR'000
Major shareholder and their affiliates:		
Investments	**224,465**	203,621
Due from banks and other financial institutions	**286,224**	613,993
Due to banks and other financial institutions	**887,924**	576,262
Customers' deposits	**4,874,761**	3,276,366
Derivatives	**8,889,104**	11,294,939
Commitments and contingencies	**986,393**	1,059,585
Other assets	**72,992**	92,518
Other liabilities	**46,060**	39,793

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

	2020 SAR' 000	2019 SAR' 000
Special commission income	**3,293**	6,191
Special commission expense	**10,710**	43,519
Fees and commission income and expense, net	**4,889**	328
Other income	**-**	2,472

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

	2020 SAR' 000	2019 SAR' 000
Short-term employee benefits	**14,990**	517
Post-employment benefits	**885**	147
Directors remuneration	**3,493**	4,062

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.

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For the years ended 31st December 2020 and 2019

31. Capital Adequacy (continued)

	2020 SAR'000	2019 SAR'000
Risk-weighted exposure		
Credit risk RWA	**25,877,562**	24,422,063
Operational risk RWA	**951,591**	761,032
Market risk RWA	**527,183**	420,281
Total risk-weighted exposure	**27,356,336**	25,603,376
Regulatory capital base		
Tier I capital	**7,059,153**	7,506,879
Tier II capital	**184,737**	130,630
Total regulatory capital base	**7,243,890**	7,637,509
Capital adequacy ratios		
Tier I ratio	**25.80%**	29.32%
Total ratio	**26.48%**	29.83%

32. IBOR Transition (Interest Rate Benchmark Reforms):

A fundamental review and reform of major interest rate benchmarks is being undertaken globally. The International Accounting Standards Board ("IASB") is engaged in a two-phase process of amending its guidance to assist in a smoother transition away from IBOR.

Phase (1) - The first phase of amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures", focused on hedge accounting issues. The final amendments, issued in September 2019, amended specific hedge accounting requirements to provide relief from the potential effects of the uncertainty caused by IBOR reform. The amendments are effective from 1 January 2020 and are mandatory for all hedge relationships directly affected by IBOR reform. The bank has adopted these amendments along with the hedging relief for pre-replacement hedges.

Phase (2) – The second phase relates to the replacement of benchmark rates (IBOR) with alternative risk-free rates (RFR). The Phase 2 amendments are effective for annual periods beginning on or after 1 January 2021 and early application is permitted. Now that the Phase 2 Amendments have been finalised, the Bank will complete its assessment of the accounting implications of the scenarios it expects to encounter as the transition from IBORs to RFRs in order to accelerate its programmes to implement the new requirements. The Phase 2 Amendments introduce new areas of judgement, the Bank needs to ensure it has appropriate accounting policies and governance in place. For the additional disclosures, the Bank will have to assess and implement required updates in the financial reporting systems and processes to gather and present the information required.

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

NOTES TO THE FINANCIAL STATEMENTS
For the years ended 31st December 2020 and 2019

32. IBOR Transition (Interest Rate Benchmark Reforms) (continued)

The table below shows the Bank's exposure at the year end to significant IBORs subject to reform that have yet to transition to RFRs. These exposures will remain outstanding until the IBOR ceases and will therefore transition in future, e.g., the table excludes exposures to IBOR that will expire before transition is required.

In SAR 000 31 December 2020	Non-derivative financial assets - carrying value	Non-derivative financial liabilities carrying value	Derivatives Nominal amount
SAIBOR SAR (1 month)	1,466,307	-	374,806
SAIBOR SAR (3 months)	3,021,379	19,989	2,275,650
SAIBOR SAR (6 months)	2,005,705	-	26,104
SAIBOR SAR (12 months)	127,339	-	-
LIBOR USD (2 months)	-	-	-
LIBOR USD (3 months)	10,313	30,000	3,163,878
LIBOR USD (6 month)	91,950	-	1,820,250
Total	**6,722,993**	**49,989**	**7,660,688**
Cross currency swaps LIBOR GBP (3 months) to SAIBOR $ (3 months)	-	-	-
Total	**6,722,993**	**49,989**	**7,660,688**

33. Impact of Covid-19 on expected credit losses ('ECL") and SAMA programs

Private Sector Financing Support Program ("PSFSP")

In response to COVID-19, SAMA launched the Private Sector Financing Support Program ("PSFSP") in March 2020 to provide the necessary support to the Micro Small and Medium Enterprises ("MSME") as per the definition issued by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H. The PSFSP mainly encompasses the following programs:

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

As part of the deferred payments program launched by SAMA, the Bank was required to defer payments for a total of nine months (original deferment for six months was followed on by a further extension of three months) on lending facilities to eligible MSMEs. The payment reliefs were considered as short-term liquidity support to address the borrower's potential cash flow issues. The Bank effected the payment reliefs by extending the tenure of the applicable loans granted with no additional costs to be borne by the customer.

The accounting impact of these changes in terms of the credit facilities has been assessed and were treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in modification losses which have been presented as part of net financing income.

Further to the above, SAMA on 29 November 2020 extended the deferred payment program until March 31, 2021. The Bank has affected the payment reliefs by extending the tenure of the applicable loans granted with no additional costs to be borne by the customer. The accounting impact of these changes in terms of the credit facilities has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of arrangement.

As a result of the above program and related extensions, the Bank has deferred the payments of SAR 775,274 thousand on MSMEs portfolio and accordingly, has recognized total modification losses of SAR 26,376 thousand during the year. The total exposures against these customers amounted to SAR 1,991,094 thousand as at the year end.

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At 31st December 2020

33. Impact of Covid-19 on expected credit losses ('ECL") and SAMA programs (continued)

As the situation has evolved since March 2020, the Bank has classified the customers, who received repayment deferrals under deferred payments program, into different categories of risk. Each of these categories are assigned a corresponding staging level based on whether SICR is deemed to have occurred because of the increased likelihood of a risk of default. The Bank has identified a proportion of deferral packages as higher credit risk and has identified that SICR event to have occurred on these customers.
If the balance of COVID-19 support packages in stage 1 move to stage 2, an additional ECL provisions would be provided during 2021 based on the credit facility - level assessment and the ability to repay amounts due after the deferral period ends.

In order to compensate the related cost that the Bank is expected to incur under the SAMA and other public authorities program, the Bank has received in aggregate SAR 532,019 thousand of profit free deposit in number of tranches from SAMA during the year ended 31 December 2020, with varying maturities. Management had determined based on the communication from SAMA, that the profit free deposits primarily relates to compensation for the modification loss incurred on the deferral of payments. The benefit of the subsidized funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in a total income of SAR 44,706 thousand, of which SAR 26,376 thousand has been recognized in the statement of income and SAR 18,330 thousand has been deferred. The management has exercised certain judgements in the recognition and measurement of this grant income. During the year ended 31 December 2020, SAR 9,059 thousand has been charged to the statement of income relating to unwinding of the day 1 income.

The Bank generally considered the deferral of payments in hardship arrangements as an indication of a SICR but the deferral of payments under the current COVID-19 support packages have not, in isolation, been treated as an indication of SICR.

The Bank continues to monitor the lending portfolios closely and reassess the provisioning levels as the situation evolves; however, management has recorded SAR 29.2 million of overlays to reflect potential further credit deterioration in credit risk levels of its customers.

If the balance of COVID-19 support customers in stage 1 move to stage 2, an additional ECL provisions would be provided during 2021 based on the credit facility - level assessment and the ability to repay amounts due after the deferral period ends.

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

In line with its monetary and financial stability mandate, SAMA injected an amount of fifty billion riyals in order to:

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

In this regard, during the year ended December 31, 2020, the Bank received SAR 948,463 thousand profit free deposit with one-year maturity. Management has determined based on the communication received from SAMA, that this government grant primarily relates to liquidity support. The benefit of the subsidized funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in a total income of SAR 11,645 thousand, of which SAR 6,793 thousand has been recognized in the statement of income for the year ended 31 December 2020 and with the remaining amount deferred.

34. Comparative figures

According to clause 46 of the Bank's Articles of Association, the Bank's fiscal year is from 1st January to 31 December of `each Gregorian year, and the first fiscal period was from the date of commercial registration (i.e. 3 April 2019) to 31 December 2019. Therefore, the comparative figures cover the period from 3 April 2019 to 31 December 2019 only.

Certain of the prior year amounts have been reclassified to the presentation in the current year.

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34. Comparative figures (continued)

	31 December 2019 Previously reported SAR'000	Reclass SAR'000	Currently reported SAR'000
Special Commission Income	904,779	(113,740)	781,039
Special Commission Expense	(505,132)	113,740	(381,392)
Salaries and employee-related expenses	(180,079)	(7,311)	(187,390)
Other general and administrative expenses	(122,608)	7,311	(115,297)

35. Subsequent events

Subsequent to year end, On 1 January 2021, the Bank acquired 100% of the issued shares in GIB Capital Company- A Saudi Closed Joint Stock Company, dealing as a principal and agent, underwriting, managing, arranging, advising and acting as custodian of financial securities, for a consideration of SAR 256.7 million. Due to this acquisition the Bank will be in a position to enter into business of financial securities business and reduce cost through economies of scale. The approval from the relevant authorities have been obtained, however, the related legal formalities have not yet been completed. There were no other significant events between the date of financial statements authorization and date of statement of financial statements which requires adjustments / disclosure in these financial statements.

36. Board of Directors' approval

The financial statements were authorised for issue by the Board of Directors on 16th February 2021.