



THE SAUDI INVESTMENT BANK
(A Saudi joint stock company)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As of and for the nine month period ended September 30, 2021

(Unaudited)



KPMG Professional Services

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C.R. No. 1010425494



**Building a better
working world**

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Independent Auditors' Report on Review of the Interim Condensed Consolidated Financial Statements to the Shareholders of The Saudi Investment Bank (A Saudi Joint Stock Company)

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of **The Saudi Investment Bank** ("the Bank") and its subsidiaries (collectively referred to as "the Group") as at 30 September 2021, and the interim consolidated statements of income and comprehensive income for the three-month and nine-month periods then ended and the interim consolidated statements of changes in equity and cash flows for the nine-month period then ended, and other explanatory notes (the "interim condensed consolidated financial statements"). Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with the International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

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

Conclusion

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

Other Regulatory Matters

As required by the Saudi Central Bank ("SAMA"), certain capital adequacy information has been disclosed in note 21 to the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note 21 to the relevant analysis prepared by the Bank for its submission to SAMA and found no material inconsistencies.

For KPMG Professional Services

**For Ernst and Young & Co Public Accountants
(Professional Limited Liability Company)**

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25 Rabi Al-Awwal 1443H
(31 October 2021)



THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in SAR'000

	Notes	Sep. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Sep. 30, 2020 (Unaudited)
ASSETS				
Cash and balances with SAMA	5a	7,110,950	8,323,490	5,835,977
Due from banks and other financial institutions, net	6a,18	1,407,134	2,166,742	1,669,743
Investments	7a,18	29,300,078	30,513,843	29,240,823
Positive fair values of derivatives, net	15a,18	699,840	1,018,349	1,065,214
Loans and advances, net	8a,18	58,290,449	55,073,894	57,722,734
Investments in associates	9a	852,956	845,744	845,299
Other real estate		420,481	446,678	446,678
Property and equipment, net	10a	1,009,277	1,064,660	1,090,975
Information Technology intangible assets, net	10b	340,923	281,780	271,778
Other assets, net	11a	208,034	149,352	149,286
Total assets		<u>99,640,122</u>	<u>99,884,532</u>	<u>98,338,507</u>
LIABILITIES AND EQUITY				
Liabilities				
Due to banks and other financial institutions, net	12a,18	20,036,584	20,073,084	19,430,684
Customers' deposits	13,18	60,890,486	60,143,589	59,840,969
Negative fair values of derivatives, net	15a,18	215,634	329,462	328,018
Term loans	14,18	-	2,006,169	2,017,486
Other liabilities	11c	<u>1,809,357</u>	<u>2,001,195</u>	<u>1,914,811</u>
Total liabilities		<u>82,952,061</u>	<u>84,553,499</u>	<u>83,531,968</u>
Equity				
Share capital	24a	7,500,000	7,500,000	7,500,000
Statutory reserve		5,233,000	5,233,000	4,988,000
Treasury shares	26	-	(1,041,067)	(1,041,067)
Other reserves	7d	694,514	792,043	491,412
Retained earnings		<u>1,260,547</u>	<u>847,057</u>	<u>868,194</u>
Shareholders' equity		<u>14,688,061</u>	<u>13,331,033</u>	<u>12,806,539</u>
Tier I Sukuk	23	<u>2,000,000</u>	<u>2,000,000</u>	<u>2,000,000</u>
Total equity		<u>16,688,061</u>	<u>15,331,033</u>	<u>14,806,539</u>
Total liabilities and equity		<u>99,640,122</u>	<u>99,884,532</u>	<u>98,338,507</u>

The accompanying notes 1 to 29 form an integral part of these interim condensed consolidated financial statements.

THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

INTERIM CONSOLIDATED STATEMENT OF INCOME (Unaudited)

Amounts in SAR'000

	Notes	Three month period ended		Nine month period ended	
		Sep. 30, 2021	Sep. 30, 2020	Sep. 30, 2021	Sep. 30, 2020
Special commission income		707,135	778,873	2,075,592	2,558,940
Special commission expense		109,506	203,410	346,460	791,559
Net special commission income		597,629	575,463	1,729,132	1,767,381
Fee income from banking services, net		72,552	91,883	252,228	219,696
Exchange income, net		41,787	43,671	114,230	134,224
Dividend income		-	-	-	14
Unrealized fair value through profit and loss		(33,568)	(5,939)	(114,041)	(20,107)
Realized fair value through profit and loss		(4,792)	-	1,962	3,542
Gains on disposals of FVOCI debt securities, net		10,635	374	41,999	31,713
Other income		-	19,467	14,499	19,470
Total operating income		684,243	724,919	2,040,009	2,155,933
Salaries and employee-related expenses		167,127	164,703	496,601	502,844
Rent and premises related expenses		34,765	29,136	102,988	93,833
Depreciation and amortization		38,048	36,193	111,457	110,159
Other general and administrative expenses		66,657	62,104	209,205	208,917
Operating expenses before provisions for credit and other losses		306,597	292,136	920,251	915,753
Provisions for credit and other losses	27	51,029	57,296	225,605	380,968
Total operating expenses		357,626	349,432	1,145,856	1,296,721
Operating income		326,617	375,487	894,153	859,212
Share in earnings of associates	9a	15,565	6,079	25,226	29,623
Income before provisions for Zakat		342,182	381,566	919,379	888,835
Provisions for Zakat	24c	67,837	80,193	143,769	174,484
Net income		274,345	301,373	775,610	714,351
Basic and diluted earnings per share (expressed in SAR per share)	20b	0.36	0.42	1.01	0.93

The accompanying notes 1 to 29 form an integral part of these interim condensed consolidated financial statements.

THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

Amounts in SAR'000

	Three month period ended		Nine month period ended		
Notes	Sep. 30, 2021	Sep. 30, 2020	Sep. 30, 2021	Sep. 30, 2020	
Net income	<u>274,345</u>	<u>301,373</u>	<u>775,610</u>	<u>714,351</u>	
Other comprehensive income (loss)					
Items that cannot be reclassified to the interim consolidated statement of income in subsequent periods:					
Net change in fair value of equity investments held at fair value through other comprehensive income	(42,493)	99,864	(44,141)	184,087	
Net change in present value of defined benefit obligations due to change in actuarial assumptions	-	-	-	341	
Items that can be reclassified to the interim consolidated statement of income in subsequent periods:					
Net change in fair value of debt securities held at fair value through other comprehensive income	(54,474)	180,899	(11,389)	10,877	
Fair value gains transferred to interim consolidated statement of income on disposal of FVOCI debt securities, net	(10,635)	(374)	(41,999)	(31,713)	
Share in other comprehensive loss of associates	9a	-	-	(3,193)	
Share in other comprehensive loss of associates transferred to interim consolidated statement of income on the disposal of an associate		-	1,036	-	1,036
Total other comprehensive income (loss)	<u>(107,602)</u>	<u>281,425</u>	<u>(97,529)</u>	<u>161,435</u>	
Total comprehensive income	<u>166,743</u>	<u>582,798</u>	<u>678,081</u>	<u>875,786</u>	

The accompanying notes 1 to 29 form an integral part of these interim condensed consolidated financial statements.

THE SAUDI INVESTMENT BANK
(A Saudi joint stock company)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)

		Nine month period ended September 30, 2021 (SAR'000)							
	Notes	Share capital	Statutory reserve	Treasury shares	Other reserves	Retained earnings	Shareholders' equity	Tier I Sukuk	Total equity
Balances at the beginning of the period (Audited)		7,500,000	5,233,000	(1,041,067)	792,043	847,057	13,331,033	2,000,000	15,331,033
Net income		-	-	-	-	775,610	775,610	-	775,610
Total other comprehensive loss		-	-	-	(97,529)	-	(97,529)	-	(97,529)
Total comprehensive income		-	-	-	(97,529)	775,610	678,081	-	678,081
Dividends paid	25	-	-	-	-	(270,002)	(270,002)	-	(270,002)
Tier I Sukuk costs		-	-	-	-	(70,518)	(70,518)	-	(70,518)
Issuance of treasury shares and related costs	26	-	-	1,041,067	-	(21,600)	1,019,467	-	1,019,467
Balances at the end of the period		7,500,000	5,233,000	-	694,514	1,260,547	14,688,061	2,000,000	16,688,061



The accompanying notes 1 to 29 form an integral part of these interim condensed consolidated financial statements.



THE SAUDI INVESTMENT BANK
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INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY - Continued (Unaudited)

	Nine month period ended September 30, 2020 (SAR'000)							
	Share capital	Statutory reserve	Treasury shares	Other reserves	Retained earnings	Shareholders' equity	Tier I Sukuk	Total equity
Balances at the beginning of the period (Audited)	7,500,000	4,988,000	(1,041,067)	329,977	230,097	12,007,007	2,000,000	14,007,007
Net income	-	-	-	-	714,351	714,351	-	714,351
Total other comprehensive income	-	-	-	161,435	-	161,435	-	161,435
Total comprehensive income	-	-	-	161,435	714,351	875,786	-	875,786
Tier I Sukuk costs	-	-	-	-	(76,254)	(76,254)	-	(76,254)
Balances at the end of the period	7,500,000	4,988,000	(1,041,067)	491,412	868,194	12,806,539	2,000,000	14,806,539

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THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)
Amounts in SAR'000

	Notes	Nine month period ended	
		Sep. 30, 2021	Sep. 30, 2020
OPERATING ACTIVITIES			
Net income		775,610	714,351
Adjustments to reconcile net income to net cash used in operating activities			
Net accretion of discounts and net amortization of premiums on investments, net		14,690	22,133
Net change in accrued special commission income		47,118	134,463
Net change in accrued special commission expense		(67,242)	(151,107)
Net change in deferred loan fees		11,658	(31,994)
Gains on FVOCI debt securities, net		(41,999)	(31,713)
Unrealized fair value through profit and loss		114,041	20,107
Realized fair value through profit and loss		(1,962)	(3,542)
Depreciation and amortization		111,457	110,159
Gain on sale of other real estate		(14,499)	(7)
Gain on sale of an associate		-	(19,460)
Provisions for credit and other losses	27	225,605	380,968
Share in earnings of associates	9a	(25,226)	(29,623)
		1,149,251	1,114,735
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		(97,007)	207,868
Due from banks and other financial institutions maturing after three months from acquisition date		101	185,989
Loans and advances		(3,540,207)	(1,137,240)
Positive fair values of derivatives		307,031	244,566
Other real estate		40,696	11,008
Other assets		(11,708)	(16,703)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		(28,394)	5,711,234
Customers' deposits		795,119	(9,086,062)
Negative fair values of derivatives		(109,083)	(30,298)
Other liabilities		17,067	394,172
		(1,477,134)	(2,400,731)
Zakat and Income Tax payments		(254,336)	(107,596)
Net cash used in operating activities		(1,731,470)	(2,508,327)
INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments		4,129,727	3,448,522
Purchases of investments		(3,063,656)	(6,320,795)
Dividends received from associates	9a	18,014	62,796
Proceeds from sale of associate	9ai	-	133,129
Acquisitions of property, equipment, and intangibles		(99,757)	(84,081)
Net cash provided from (used in) investing activities		984,328	(2,760,429)

The accompanying notes 1 to 29 form an integral part of these interim condensed consolidated financial statements.

THE SAUDI INVESTMENT BANK
(A Saudi joint stock company)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS - Continued (Unaudited)
Amounts in SAR'000

	Notes	Nine month period ended	
		Sep. 30, 2021	Sep. 30, 2020
FINANCING ACTIVITIES			
Repayment of term loans		(2,000,000)	-
Issuance of treasury shares, net of costs		1,019,467	-
Dividends paid		(270,002)	-
Tier I Sukuk costs		(70,518)	(76,254)
Net cash used in financing activities		<u>(1,321,053)</u>	<u>(76,254)</u>
Net decrease in cash and cash equivalents		<u>(2,068,195)</u>	<u>(5,345,010)</u>
Cash and cash equivalents			
Cash and cash equivalents at the beginning of the period		7,266,784	9,613,154
Net decrease in cash and cash equivalents		(2,068,195)	(5,345,010)
Cash and cash equivalents at the end of the period	5b	<u>5,198,589</u>	<u>4,268,144</u>
Supplemental special commission information			
Special commission received		<u>2,122,710</u>	<u>2,693,403</u>
Special commission paid		<u>415,946</u>	<u>943,999</u>
Supplemental non-cash information			
Total other comprehensive income (loss)		<u>(97,529)</u>	<u>161,435</u>

The accompanying notes 1 to 29 form an integral part of these interim condensed consolidated financial statements.



THE SAUDI INVESTMENT BANK

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Amounts in SAR'000

For the nine month periods ended September 30, 2021 and 2020

1. General

The Saudi Investment Bank (the "Bank"), a Saudi joint stock company, was formed pursuant to Royal Decree No. M/31 dated 25 Jumada II 1396H, corresponding to June 23, 1976 in the Kingdom of Saudi Arabia ("KSA"). The Bank operates under Commercial Registration No. 1010011570 dated 25 Rabie Awwal 25 1397H, corresponding to March 16, 1977 through its 52 branches (December 31, 2020: 52 branches; and September 30, 2020: 52 branches) in KSA. The address of the Bank's Head Office is as follows:

The Saudi Investment Bank
Head Office
P.O. Box 3533
Riyadh 11481, KSA

The Bank offers a full range of commercial and retail banking services. The Bank also offers Shariah compliant (non-interest based) banking products and services, which are approved and supervised by an independent Shariah Board established by the Bank.

2. Basis of preparation

These interim condensed consolidated financial statements as of and for the nine month period ended September 30, 2021 have been prepared in accordance with International Accounting Standard 34 - *Interim Financial Reporting* ("IAS 34") as endorsed in KSA and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA"). These interim condensed consolidated financial statements do not include all information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the annual consolidated financial statements as of and for the year ended December 31, 2020.

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

The preparation of these interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities and income and expense. Actual results may differ from these estimates. In preparing these interim condensed consolidated financial statements, the significant judgments made by management in applying the accounting policies and the key sources of estimation of uncertainty were the same as those that applied to the annual consolidated financial statements as of and for the year ended December 31, 2020.

These interim condensed consolidated financial statements were approved by the Bank's Board of Directors on 22 Rabi' Al Awwal 1443H, corresponding to October 28, 2021.

3. Basis of consolidation

These interim condensed consolidated financial statements include the financial statements of the Bank and the financial statements of the following subsidiaries (collectively referred to as the "Group" in these interim condensed consolidated financial statements):

- a) "Alistithmar for Financial Securities and Brokerage Company" (Alistithmar Capital), a Saudi closed joint stock company, which is registered in KSA under Commercial Registration No. 1010235995 issued on 8 Rajab 1428H (corresponding to July 22, 2007), and is 100% owned by the Bank. The principal activities of Alistithmar Capital include dealing in securities as principal and agent, underwriting, management of investment funds and private investment portfolios on behalf of customers, and arrangement, advisory and custody services relating to financial securities;
- b) "Saudi Investment Real Estate Company", a limited liability company, which is registered in KSA under commercial registration No.1010268297 issued on 29 Jumada Awwal 1430H (corresponding to May 25, 2009), and is owned 100% by the Bank. The primary objective of the Company is to hold title deeds as collateral on behalf of the Bank for real estate related lending transactions;

THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Amounts in SAR'000

For the nine month periods ended September 30, 2021 and 2020

3. Basis of consolidation – continued

- c) "Saudi Investment First Company", a limited liability company, which is registered in KSA under commercial registration No. 1010427836 issued on 16 Muharram 1436H (corresponding to November 9, 2014), and is owned 100% by the Bank. During 2020, the Company completed the formalities for deregistration with regulatory authorities and has been liquidated; and
- d) "SAIB Markets Limited Company", a Cayman Islands limited liability company, registered in the Cayman Islands on July 18, 2017, and is 100% owned by the Bank. The objective of the Company is to conduct derivatives and repurchase activities on behalf of the Bank.

References to the Bank hereafter in these interim condensed consolidated financial statements refer to disclosures that are relevant only to the Bank and not collectively to the Group.

The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies. Changes are made to the accounting policies of the subsidiaries when necessary to align with the accounting policies of the Group.

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of the subsidiaries are included in the interim condensed consolidated financial statements from the date the Group obtains control of the investee and ceases when the Group loses control of the investee.

A structured entity is an entity designed so that its activities are not governed by way of voting rights. In assessing whether the Group has power over such investees in which it has an interest, the Group considers factors such as purpose and design of the investee, its practical ability to direct the relevant activities of the investee, the nature of its relationship with the investee, and the size of its exposure to the variability of returns of the investee. The financial statements of any such structured entities are consolidated from the date the Group obtains control and until the date when the Group ceases to control the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Amounts in SAR'000
For the nine month periods ended September 30, 2021 and 2020

3. Basis of consolidation – continued

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

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

The Group acts as Fund Manager to several investment funds. Determining whether the Group controls individual investment funds usually focuses on the assessment of the aggregate economic interests of the Group in an individual fund (comprising any carried interests and expected management fees) and the investors' rights to remove the Fund Manager. As a result, the Group has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated these funds.

All intra-group balances and any income and expenses arising from intra-group transactions, are eliminated in preparing these interim condensed consolidated financial statements.

4. Summary of significant accounting policies

The accounting policies, estimates and assumptions used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2020.

Other Standards, amendments or interpretations

Other Standards, amendments or interpretations effective for annual periods beginning on or after January 1, 2021, did not have a significant impact on the Group's interim condensed consolidated financial statements.

5. Cash and balances with SAMA and cash and cash equivalents

- a) Cash and balances with SAMA as of September 30, 2021 and 2020 and as of December 31, 2020 are summarized as follows:

	Sep. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Sep. 30, 2020 (Unaudited)
Cash on hand	809,309	704,645	948,527
Reverse repurchase agreement	3,157,000	4,610,000	1,590,000
Other balances, net	(178,915)	(217,704)	66,092
Cash and balances before statutory deposit (note 5b)	3,787,394	5,096,941	2,604,619
Statutory deposit	3,323,556	3,226,549	3,231,358
Cash and balances with SAMA	<u>7,110,950</u>	<u>8,323,490</u>	<u>5,835,977</u>

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Amounts in SAR'000
For the nine month periods ended September 30, 2021 and 2020

5. Cash and balances with SAMA and cash and cash equivalents - continued

- b) Cash and cash equivalents included in the interim consolidated statement of cash flows as of September 30, 2021 and 2020 and as of December 31, 2020 are comprised of the following:

	Sep. 30, 2021 <u>(Unaudited)</u>	Dec. 31, 2020 <u>(Audited)</u>	Sep. 30, 2020 <u>(Unaudited)</u>
Cash and balances with SAMA excluding statutory deposit (note 5a)	3,787,394	5,096,941	2,604,619
Due from banks and other financial institutions maturing within three months from the date of acquisition	<u>1,411,195</u>	<u>2,169,843</u>	<u>1,663,525</u>
Cash and cash equivalents	<u><u>5,198,589</u></u>	<u><u>7,266,784</u></u>	<u><u>4,268,144</u></u>

6. Due from banks and other financial institutions, net

- a) Due from banks and other financial institutions, net as of September 30, 2021 and 2020 and as of December 31, 2020 are summarized as follows:

	Sep. 30, 2021 <u>(Unaudited)</u>	Dec. 31, 2020 <u>(Audited)</u>	Sep. 30, 2020 <u>(Unaudited)</u>
Current accounts	798,752	1,669,843	1,611,383
Money market placements	<u>612,443</u>	<u>500,101</u>	<u>60,946</u>
Total due from banks and other financial institutions	1,411,195	2,169,944	1,672,329
Allowance for credit losses	<u>(4,061)</u>	<u>(3,202)</u>	<u>(2,586)</u>
Due from banks and other financial institutions, net	<u><u>1,407,134</u></u>	<u><u>2,166,742</u></u>	<u><u>1,669,743</u></u>

- b) The movement of the allowance for credit losses for the nine month periods ended September 30, 2021 and 2020 and the year ended December 31, 2020 is summarized as follows:

	Sep. 30, 2021 <u>(Unaudited)</u>	Dec. 31, 2020 <u>(Audited)</u>	Sep. 30, 2020 <u>(Unaudited)</u>
Balances at the beginning of the year / period	3,202	2,088	2,088
Provision for credit losses	<u>859</u>	<u>1,114</u>	<u>498</u>
Balances at the end of the year / period	<u><u>4,061</u></u>	<u><u>3,202</u></u>	<u><u>2,586</u></u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Amounts in SAR'000
For the nine month periods ended September 30, 2021 and 2020

7. Investments

- a) Investments as of September 30, 2021 and 2020 and as of December 31, 2020 are summarized as follows:

	Sep. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Sep. 30, 2020 (Unaudited)
Fixed rate debt securities	27,493,837	27,616,293	26,261,878
Floating rate debt securities	1,301,819	2,343,616	2,369,851
Total debt securities	28,795,656	29,959,909	28,631,729
Equities	329,367	373,819	444,193
Mutual funds	143,021	144,212	128,806
Other securities	32,034	35,903	36,095
Investments	<u>29,300,078</u>	<u>30,513,843</u>	<u>29,240,823</u>

Debt securities and equities are classified as FVOCI, and mutual funds and other securities are classified as FVTPL.

The Group's investments in equities include SAR 8.6 million as of September 30, 2021 (December 31, 2020: SAR 8.6 million, and September 30, 2020: SAR 8.6 million) which the Bank acquired in prior years in connection with the settlement of certain loans and advances.

The Group also holds strategic investments in equities totaling SAR 320.3 million as of September 30, 2021 (December 31, 2020: SAR 365.1 million, and September 30, 2020: SAR 435.5 million) including the Mediterranean and Gulf Cooperative Insurance and Reinsurance Company, SIMAH (the Saudi Credit Bureau), and the Saudi Company for Registration of Finance Lease Contracts.

As of September 30, 2021, investments include SAR 13.3 billion (December 31, 2020: SAR 13.5 billion, and September 30, 2020: SAR 12.0 billion) which have been pledged under repurchase agreements with other financial institutions.

- b) The credit quality of debt securities at FVOCI as of September 30, 2021 and 2020 and as of December 31, 2020 is summarized as follows:

	Sep. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Sep. 30, 2020 (Unaudited)
Grades 1-6 and unrated	28,795,656	29,959,909	28,631,729
Grades 7-9	-	-	-
Total debt securities	<u>28,795,656</u>	<u>29,959,909</u>	<u>28,631,729</u>

- c) The movement of the allowance for credit losses for the nine month periods ended September 30, 2021 and 2020 and for the year ended December 31, 2020 included in other reserves is summarized as follows:

	Sep. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Sep. 30, 2020 (Unaudited)
Balances at the beginning of the year/period	31,385	29,659	29,659
Provision for credit losses	333	1,726	3,742
Balances at the end of the year/period (note 7d)	<u>31,718</u>	<u>31,385</u>	<u>33,401</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Amounts in SAR'000
For the nine month periods ended September 30, 2021 and 2020

7. Investments – continued

- d) Other reserves classified in shareholders' equity as of September 30, 2021 and 2020 and as of December 31, 2020 are comprised of the following:

	Sep. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Sep. 30, 2020 (Unaudited)
Unrealized gains on revaluation of debt securities at FVOCI before allowance for credit losses	660,677	714,398	334,345
Allowance for credit losses on debt securities at FVOCI (note 7c)	31,718	31,385	33,401
Unrealized gains on revaluation of debt securities at FVOCI after allowance for credit losses	692,395	745,783	367,746
Unrealized gains on revaluation of equities held at FVOCI	31,914	76,055	146,431
Actuarial losses on defined benefit plans	(27,083)	(27,083)	(20,348)
Share of other comprehensive loss of associates	(2,712)	(2,712)	(2,417)
Other reserves	<u>694,514</u>	<u>792,043</u>	<u>491,412</u>

8. Loans and advances, net

- a) Loans and advances, net classified as held at amortized cost as of September 30, 2021 and 2020 and as of December 31, 2020 and are summarized as follows:

	Sep. 30, 2021 (Unaudited)			
	Commercial and other	Overdrafts	Consumer	Total
Stage 1	39,358,170	3,535,213	10,044,934	52,938,317
Stage 2	3,497,113	1,080,508	93,912	4,671,533
Stage 3	797,181	734,713	446	1,532,340
Total performing loans and advances	43,652,464	5,350,434	10,139,292	59,142,190
Non performing loans and advances	30,942	966,972	89,646	1,087,560
Total loans and advances	43,683,406	6,317,406	10,228,938	60,229,750
Allowance for credit losses	(786,427)	(974,030)	(178,844)	(1,939,301)
Loans and advances, net	<u>42,896,979</u>	<u>5,343,376</u>	<u>10,050,094</u>	<u>58,290,449</u>
	Dec. 31, 2020 (Audited)			
	Commercial and other	Overdrafts	Consumer	Total
Stage 1	36,798,982	2,326,428	11,067,275	50,192,685
Stage 2	3,573,207	455,642	149,756	4,178,605
Stage 3	801,157	497,313	449	1,298,919
Total performing loans and advances	41,173,346	3,279,383	11,217,480	55,670,209
Non performing loans and advances	36,867	985,294	136,948	1,159,109
Total loans and advances	41,210,213	4,264,677	11,354,428	56,829,318
Allowance for credit losses	(821,336)	(673,862)	(260,226)	(1,755,424)
Loans and advances, net	<u>40,388,877</u>	<u>3,590,815</u>	<u>11,094,202</u>	<u>55,073,894</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Amounts in SAR'000

For the nine month periods ended September 30, 2021 and 2020

8. Loans and advances, net – continued

	Sep. 30, 2020 (Unaudited)			
	Commercial and other	Overdrafts	Consumer	Total
Stage 1	38,403,712	2,265,215	11,710,021	52,378,948
Stage 2	3,857,006	541,888	150,920	4,549,814
Stage 3	255,481	995,932	2,785	1,254,198
Total performing loans and advances	42,516,199	3,803,035	11,863,726	58,182,960
Non performing loans and advances	326,197	1,719,068	194,630	2,239,895
Total loans and advances	42,842,396	5,522,103	12,058,356	60,422,855
Allowance for credit losses	(987,257)	(1,396,681)	(316,183)	(2,700,121)
Loans and advances, net	41,855,139	4,125,422	11,742,173	57,722,734

- b) The movement of the allowance for credit losses for the nine month periods ended September 30, 2021 and 2020 and for the year ended December 31, 2020 is summarized as follows:

	Sep. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Sep. 30, 2020 (Unaudited)
Balances at the beginning of the year / period	1,755,424	2,405,585	2,405,585
Provision for credit losses	225,042	453,527	381,940
Write-offs, net	(41,165)	(1,103,688)	(87,404)
Balances at the end of the year / period (i)	1,939,301	1,755,424	2,700,121

- i. Owing to the prevailing economic conditions, the Group recognized an ECL provision of SAR 186.8 million as of September 30, 2021 (December 31, 2020: SAR 198.5 million and September 30, 2020: SAR 191.1 million) for its loans and advances portfolio as a result of post-model overlays. Refer to note 28 for details.

9. Investments in associates

- a) Investments in associates include the Bank's ownership interest in American Express (Saudi Arabia) ("AMEX") of 50%, in YANAL Finance Company ("YANAL") (formerly Saudi ORIX Leasing Company) of 38%, and in Amlak International for Real Estate Finance Company ("AMLAK") of 22.4%. The movement of investments in associates for the nine month periods ended September 30, 2021 and 2020, and for the year ended December 31, 2020, is summarized as follows:

	Sep. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Sep. 30, 2020 (Unaudited)
Balance at the beginning of the year / period	845,744	994,298	994,298
Share in earnings	25,226	45,928	29,623
Dividends	(18,014)	(79,397)	(62,796)
Share of other comprehensive loss	-	(2,452)	(3,193)
Disposals (i)	-	(112,633)	(112,633)
Balance at the end of the year / period	852,956	845,744	845,299

- (i) During the year ended December 31, 2020, the Group sold 30% of its shares in AMLAK as part of AMLAK's Initial Public Offering. The carrying value of the investment sold amounted to SAR 112.6 million. Consideration received was SAR 133.1 million. The gain from the sale amounting to SAR 19.4 million, net of other comprehensive loss of SAR 1.03 million was recognized in the consolidated statement of income.

The retained interest in AMLAK continues to be classified as an associate as the Group continues to retain significant influence over financial and operating matters of the associated company. The fair value of the investment in AMLAK as of September 30, 2021 amounts to SAR 473.8 million (December 31, 2020: SAR 444.5 million and September 30, 2020: SAR 482.7 million).

THE SAUDI INVESTMENT BANK
(A Saudi joint stock company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Amounts in SAR'000
For the nine month periods ended September 30, 2021 and 2020

9. Investments in associates - continued

- b) The following table summarizes the associates' assets, liabilities, and equity based on the latest available financial statements as of September 30, 2021 and 2020, and income and expense for the nine month periods then ended:

	Sep. 30, 2021 (Unaudited)			Sep. 30, 2020 (Unaudited)		
	AMEX	YANAL	AMLAK	AMEX	YANAL	AMLAK
Total assets	854,310	1,481,906	3,506,164	545,730	1,288,438	3,750,452
Total liabilities	521,468	592,362	2,373,977	223,991	436,360	2,582,539
Equity	332,842	889,544	1,132,187	321,739	852,078	1,167,913
Total income	210,203	88,286	142,575	198,870	74,463	148,416
Total expenses	201,776	55,374	67,367	187,342	59,999	95,126

The head office of each associate company is located in Riyadh in KSA, with all operations conducted entirely in KSA.

10. Property and equipment, net and Information Technology intangible assets, net

- a) Property and equipment, net as of September 30, 2021 and 2020 and as of December 31, 2020 is summarized as follows:

	Sep. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Sep. 30, 2020 (Unaudited)
Land and buildings	1,104,336	1,089,201	1,087,721
Leasehold improvements	179,414	179,600	183,968
Furniture, equipment and vehicles	415,297	415,799	409,541
Right of Use leased assets	316,393	320,053	326,924
Total cost	2,015,440	2,004,653	2,008,154
Less accumulated depreciation	(1,009,631)	(940,201)	(917,179)
	1,005,809	1,064,452	1,090,975
Projects pending completion	3,468	208	-
Property and equipment, net	1,009,277	1,064,660	1,090,975

- b) Information Technology intangible assets, net as of September 30, 2021 and 2020 and as of December 31, 2020 is summarized as follows:

	Sep. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Sep. 30, 2020 (Unaudited)
Software	538,083	460,948	446,947
Less accumulated amortization	(268,883)	(230,664)	(219,188)
	269,200	230,284	227,759
Projects pending completion	71,723	51,496	44,019
Information Technology intangible assets, net	340,923	281,780	271,778

11. Other assets, net and other liabilities

- a) Other assets, net as of September 30, 2021 and 2020 and as of December 31, 2020 are summarized as follows:

	Sep. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Sep. 30, 2020 (Unaudited)
Customer and other receivables	102,049	73,696	56,670
Prepaid expenses	41,643	35,017	61,865
Others	64,464	40,914	31,548
Total other assets	208,156	149,627	150,083
Less allowance for credit losses (note 11b)	(122)	(275)	(797)
Other assets, net	208,034	149,352	149,286

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Amounts in SAR'000

For the nine month periods ended September 30, 2021 and 2020

11. Other assets, net and other liabilities - continued

- b) The movement of the allowance for credit losses for the nine month periods ended September 30, 2021 and 2020 and for the year ended December 31, 2020 is summarized as follows:

	Sep. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Sep. 30, 2020 (Unaudited)
Balances at the beginning of the year / period	275	386	386
Provision for credit losses	(153)	(111)	411
Balances at the end of the year / period	<u>122</u>	<u>275</u>	<u>797</u>

- c) Other liabilities as of September 30, 2021 and 2020 and as of December 31, 2020 are summarized as follows:

	Sep. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Sep. 30, 2020 (Unaudited)
Zakat settlement liability, net (note 24e)	356,159	346,637	466,482
Lease liabilities	233,080	254,784	260,937
Allowance for credit losses for financial guarantee contracts	210,078	210,554	211,774
Employee end of service benefits	207,111	202,444	189,612
Accrued salaries and employee related benefits	199,348	166,728	128,828
Accrued expenses and other provisions	146,653	102,189	148,700
Accrued Zakat	174,319	250,799	155,374
Deferred government grant income	70,717	214,352	161,441
Customer related liabilities	66,106	116,538	59,491
Allowance for legal proceedings	48,961	49,000	49,011
Deferred fees	8,921	8,485	-
Others	87,904	78,685	83,161
Total	<u>1,809,357</u>	<u>2,001,195</u>	<u>1,914,811</u>

12. Due to banks and other financial institutions, net

- a) Due to banks and other financial institutions, net as of September 30, 2021 and 2020 and as of December 31, 2020 are summarized as follows:

	Sep. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Sep. 30, 2020 (Unaudited)
Current accounts	3,944	8,758	8,067
Repurchase agreements	12,711,861	12,502,627	10,948,248
Money market deposits	1,206,462	1,784,292	2,584,335
Deposits from SAMA, net (note 12b)	6,114,317	5,777,407	5,890,034
Total	<u>20,036,584</u>	<u>20,073,084</u>	<u>19,430,684</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Amounts in SAR'000
For the nine month periods ended September 30, 2021 and 2020

12. Due to banks and other financial institutions, net - continued

b) Deposits from SAMA, net are comprised of the following:

<u>Maturity date</u>	Sep. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Sep. 30, 2020 (Unaudited)
June 6, 2021	-	2,322,722	2,322,722
March 29, 2023	525,340	525,340	1,050,000
December 29, 2024	524,660	524,660	-
February 11, 2025	25,000	25,000	25,000
February 20, 2025	1,161,000	1,161,000	1,161,000
April 16, 2025	1,624,069	1,624,069	1,624,069
March 3, 2024	30,000	-	-
March 7, 2022	2,500,000	-	-
August 25, 2024	40,000	-	-
Undiscounted commission free deposits from SAMA	6,430,069	6,182,791	6,182,791
Less: Unamortized discount	(315,752)	(405,384)	(292,757)
Deposits from SAMA, net	<u>6,114,317</u>	<u>5,777,407</u>	<u>5,890,034</u>

13. Customers' deposits

Customers' deposits as of September 30, 2021 and 2020 and as of December 31, 2020 are summarized as follows:

	Sep. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Sep. 30, 2020 (Unaudited)
Time deposits	24,898,243	24,548,254	27,662,698
Savings deposits	1,550,397	1,041,362	1,598,732
Total special commission bearing deposits	26,448,640	25,589,616	29,261,430
Demand deposits	32,547,436	32,485,210	29,181,542
Other deposits	1,894,410	2,068,763	1,397,997
Customers' deposits	<u>60,890,486</u>	<u>60,143,589</u>	<u>59,840,969</u>

14. Term loans

On June 19, 2016, the Bank entered into a five year medium term loan facility agreement for an amount of SAR 1.0 billion for general corporate purposes. The facility was fully utilized and repaid on June 19, 2021. On September 26, 2017, the Bank entered into another five year medium term loan facility agreement for an amount of SAR 1.0 billion for general corporate purposes. The facility was fully utilized on October 4, 2017 and was repaid on May 26, 2021.

The term loans were at market based variable commission rates. The Bank had an option to effect early repayment of the term loans subject to the terms and conditions of the related facility agreements. The facility agreements above included covenants which required maintenance of certain financial ratios and other requirements, with which the Bank was in compliance. The Bank had no defaults of principal or commission on the term loans.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Amounts in SAR'000
For the nine month periods ended September 30, 2021 and 2020

15. Derivatives

- a) The table below sets out the positive and negative fair values of derivative financial instruments together with their notional amounts as of September 30, 2021 and 2020 and as of December 31, 2020. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the end of the period / year, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are not indicative of market risk nor of the Group's exposure to credit risk, which is generally limited to the net positive fair value of the derivatives.

	Sep. 30, 2021 (Unaudited)			Dec. 31, 2020 (Audited)			Sep. 30, 2020 (Unaudited)		
	Fair value		Notional amount	Fair value		Notional amount	Fair value		Notional amount
Positive	Negative	Positive		Negative	Positive		Negative		
Held for trading:									
Forward foreign exchange contracts	13,361	13,189	1,734,004	10,941	8,532	3,314,241	18,753	16,752	3,769,726
Commission rate swaps	124,801	123,962	8,534,053	141,671	145,704	7,590,244	156,899	156,396	7,563,501
Commission rate options	165,236	165,228	7,745,340	290,517	290,509	9,065,419	280,530	280,522	9,065,020
Held as fair value hedges:									
Commission rate swaps	-	854,914	12,571,561	-	1,301,327	12,724,672	-	1,452,334	12,721,280
CSA / EMIR cash margins	181,367	(941,659)	-	238,645	(1,416,610)	-	210,289	(1,577,986)	-
Subtotal	484,765	215,634	30,584,958	681,774	329,462	32,694,576	666,471	328,018	33,119,527
Associated company put option (note 15c)	215,075	-	-	336,575	-	-	398,743	-	-
Total	699,840	215,634	30,584,958	1,018,349	329,462	32,694,576	1,065,214	328,018	33,119,527

- b) The Bank, as part of its derivative management activities, has entered into a master agreement in accordance with the International Swaps and Derivatives Association (ISDA) directives. Under this agreement, the terms and conditions for derivative products purchased or sold by the Bank are unified. As part of the master agreement, a credit support annex (CSA) has also been signed. The CSA allows the Bank to receive improved pricing by way of exchange of mark to market amounts in cash as collateral whether in favor of the Bank or the counterparty.

For commission rate swaps entered into with European counterparties, the Bank and the European counterparty both comply with the European Market Infrastructure Regulation (EMIR). EMIR is a body of European legislation for the central clearing and regulation of Over the Counter (OTC) derivatives. The regulation includes requirements for reporting of derivatives contracts and implementation of risk management standards, and establishes common rules for central counterparties and trade repositories. Accordingly, all such standardized OTC derivatives contracts are traded on exchanges and cleared through a Central Counter Party (CCP) through netting arrangements and exchanges of cash to reduce counter party credit and liquidity risk.

As of September 30, 2021, the CSA and EMIR net cash collateral amounts held by counterparties in favor of the Bank totaled SAR 1,123 million (December 31, 2020: SAR 1,655 million, and September 30, 2020: SAR 1,788 million). The EMIR net cash margins include initial margin payments made to counterparties.

The positive and negative fair values of derivatives including CSA and EMIR cash margins have been netted / offset when there is a legally enforceable right to set off the recognized amounts and when the Group intends to settle on a net basis, or to realize the assets and settle the liability simultaneously.

- c) The Bank has a put option arising from an existing master agreement entered into by the Bank relating to an associated company, the estimated value of which is included in note 15a. The terms of the agreement give the Bank a put option and give the counter party a call option that is exercisable for the remaining term of the agreement. The Bank has valued only the put option, as the call option is deemed to be out of the money. The put option, once exercised, grants the Bank the right to receive a payment in exchange for its shares one year after the exercise, based on pre-determined formulas included in the agreement.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Amounts in SAR'000
For the nine month periods ended September 30, 2021 and 2020

16. Commitments, contingencies, and financial guarantee contracts

- a) The Group's credit-related commitments and contingencies as of September 30, 2021 and 2020 and as of December 31, 2020 are summarized as follows:

	Sep. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Sep. 30, 2020 (Unaudited)
Letters of credit	2,472,665	2,429,629	2,480,538
Letters of guarantee	8,750,233	8,926,422	8,771,711
Acceptances	851,087	652,079	777,447
Total financial guarantee contracts	12,073,985	12,008,130	12,029,696
Irrevocable commitments to extend credit	256,916	415,678	415,450
Credit-related commitments and contingencies	<u>12,330,901</u>	<u>12,423,808</u>	<u>12,445,146</u>

- b) The credit quality of financial guarantee contracts as of September 30, 2021 and 2020 and as of December 31, 2020 are summarized as follows:

	Sep. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Sep. 30, 2020 (Unaudited)
Stage 1	11,105,903	11,247,291	11,075,021
Stage 2	571,166	357,503	551,326
Stage 3	396,916	403,336	403,349
Total	<u>12,073,985</u>	<u>12,008,130</u>	<u>12,029,696</u>

- c) The movement of the allowance for credit losses for financial guarantee contracts for the nine month periods ended September 30, 2021 and 2020 and for the year ended December 31, 2020 is summarized as follows:

	Sep. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Sep. 30, 2020 (Unaudited)
Balances at the beginning of the year / period	210,554	217,397	217,397
Provision for credit losses	(476)	(6,843)	(5,623)
Balances at the end of the year / period	<u>210,078</u>	<u>210,554</u>	<u>211,774</u>

- d) The Group is subject to legal proceedings in the ordinary course of business. No provision has been made in cases where professional legal advice indicates that it is not probable that any significant loss will arise. However, provisions are made for legal cases where management foresees the probability of an adverse outcome based on professional advice.

17. Operating segments

- a) Operating segments are identified based on internal reports about components of the Group that are regularly reviewed by the Bank's Board of Directors in its function as the Chief Operating Decision Maker to allocate resources to the segments and to assess their performance. Performance is measured based on segment profit, as management believes that this indicator is the most relevant in evaluating the results of certain segments relative to other entities that operate within these sectors.

Transactions between the operating segments are on normal commercial terms and conditions as approved by management. The revenue from external parties reported to the Board is measured in a manner consistent with that in the interim consolidated statement of income. Segment assets and liabilities are comprised of operating assets and liabilities. The Group's primary business is conducted in KSA.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Amounts in SAR'000
For the nine month periods ended September 30, 2021 and 2020

17. Operating segments – continued

There has been no change to the measurement basis for the segment profit or loss. The Group's reportable segments are as follows:

Retail banking. Loans, deposits, and other credit products for individuals and high net worth individuals.

Corporate banking. Loans, deposits and other credit products for corporate, institutional and small to medium-sized customers.

Treasury and Investments. Money market, investments and treasury services, and investments in associates and related activities.

Asset management and brokerage. Dealing, managing, advising and custody of securities services.

Other. Support functions, special credit, and other management and control units.

Commission is charged to operating segments based on Funds Transfer Price (FTP) rates. The net FTP contribution included in the segment information below includes the segmental net special commission income after FTP asset charges and liability credits (FTP net transfers). All other segment income is from external customers.

- b) The segment information provided to the Bank's Board of Directors for the reportable segments for the Group's total assets and liabilities as of September 30, 2021 and 2020, and its total operating income, expenses, and Income before provisions for Zakat for the nine month periods then ended, are as follows:

	Sep. 30, 2021 (Unaudited)					
	Retail Banking	Corporate Banking	Treasury and Investments	Asset Management and Brokerage	Other	Total
Total assets	18,760,934	39,049,422	38,528,615	613,093	2,688,058	99,640,122
Total liabilities	23,139,562	8,493,052	50,915,133	69,908	334,406	82,952,061
Net special commission income (expense)	510,000	910,648	306,874	18,727	(17,117)	1,729,132
FTP net transfers	2,807	(412,612)	415,828	-	(6,023)	-
Net FTP contribution	512,807	498,036	722,702	18,727	(23,140)	1,729,132
Fee income (expense) from banking services, net	26,889	78,612	18,484	139,456	(11,213)	252,228
Other operating income (loss)	50,350	42,342	35,860	8,289	(78,192)	58,649
Total operating income (loss)	590,046	618,990	777,046	166,472	(112,545)	2,040,009
Direct operating expenses	234,977	53,552	34,373	71,589	-	394,491
Indirect operating expenses	210,305	110,409	205,046	-	-	525,760
Provisions for credit and other losses	162,100	62,466	1,192	(153)	-	225,605
Total operating expenses	607,382	226,427	240,611	71,436	-	1,145,856
Operating income (loss)	(17,336)	392,563	536,435	95,036	(112,545)	894,153
Share in earnings of associates	-	-	25,226	-	-	25,226
Income (loss) before provisions for Zakat	(17,336)	392,563	561,661	95,036	(112,545)	919,379

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Amounts in SAR'000
For the nine month periods ended September 30, 2021 and 2020

17. Operating segments – continued

	Sep. 30, 2020 (Unaudited)					Total
	Retail Banking	Corporate Banking	Treasury and Investments	Asset Management and Brokerage	Other	
Total assets	19,786,514	37,749,926	37,762,942	489,335	2,549,790	98,338,507
Total liabilities	21,750,611	7,329,185	53,592,077	63,573	796,522	83,531,968
Net special commission income (expense)	691,626	1,167,290	(8,014)	18,450	(101,971)	1,767,381
FTP net transfers	(28,203)	(444,360)	482,037	-	(9,474)	-
Net FTP contribution	663,423	722,930	474,023	18,450	(111,445)	1,767,381
Fee income (expense) from banking services, net	17,570	106,129	34,505	89,385	(27,893)	219,696
Other operating income (loss)	58,893	35,618	190,399	949	(117,003)	168,856
Total operating income (loss)	739,886	864,677	698,927	108,784	(256,341)	2,155,933
Direct operating expenses	203,163	48,149	31,373	61,098	-	343,783
Indirect operating expenses	245,946	114,394	211,630	-	-	571,970
Provisions for credit and other losses	38,095	338,222	4,240	411	-	380,968
Total operating expenses	487,204	500,765	247,243	61,509	-	1,296,721
Operating income (loss)	252,682	363,912	451,684	47,275	(256,341)	859,212
Share in earnings of associates	-	-	29,623	-	-	29,623
Income (loss) before provisions for Zakat	252,682	363,912	481,307	47,275	(256,341)	888,835

18. Fair values of financial instruments

- a) The Group measures certain financial instruments, such as derivatives, at fair value at each interim consolidated statement of financial position date.

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

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

The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, while maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the interim consolidated statement of financial position are categorized within a 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 prices in active markets for the same or identical instrument that an entity can access at the measurement date (i.e., without modification or proxy);

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Amounts in SAR'000
For the nine month periods ended September 30, 2021 and 2020

18. Fair values of financial instruments – continued

For assets and liabilities that are recognized in the interim consolidated statement of financial position on a recurring basis, the Group 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 financial reporting date.

The Group determines the policies and procedures for both recurring fair value measurement, such as unquoted financial assets, and for any non-recurring measurement, such as assets held for distribution in discontinued operations.

External subject matter experts are involved from time to time for the valuation of certain assets. Involvement of external subject matter experts is decided upon annually. Selection criteria include market knowledge, reputation, independence, and whether professional standards are maintained.

At each financial reporting date, the Group analyzes the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Group also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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

- b) The following table summarizes the fair values of financial assets and financial liabilities by level of fair value hierarchy recorded at fair value as of September 30, 2021 and 2020 and as of December 31, 2020. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Sep. 30, 2021 (Unaudited)			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Derivative financial instruments at FVTPL	-	484,765	215,075	699,840
Investments at FVOCI	24,871,048	4,240,703	13,272	29,125,023
Investments at FVTPL	132,117	-	42,938	175,055
Total	25,003,165	4,725,468	271,285	29,999,918
Financial liabilities carried at fair value:				
Derivative financial instruments at FVTPL	-	215,634	-	215,634
Total	-	215,634	-	215,634
	Dec. 31, 2020 (Audited)			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Derivative financial instruments at FVTPL	-	681,774	336,575	1,018,349
Investments at FVOCI	26,173,775	4,146,678	13,275	30,333,728
investments at FVTPL	132,949	-	47,166	180,115
Total	26,306,724	4,828,452	397,016	31,532,192
Financial liabilities carried at fair value:				
Derivative financial instruments at FVTPL	-	329,462	-	329,462
Total	-	329,462	-	329,462

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Amounts in SAR'000
For the nine month periods ended September 30, 2021 and 2020

18. Fair values of financial instruments – continued

	Sep. 30, 2020 (Unaudited)			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Derivative financial instruments at FVTPL	-	666,471	398,743	1,065,214
Investments at FVOCI	23,202,659	5,408,000	465,263	29,075,922
Investments at FVTPL	117,301	-	47,600	164,901
Total	23,319,960	6,074,471	911,606	30,306,037
Financial liabilities carried at fair value:				
Derivative financial instruments at FVTPL	-	328,018	-	328,018
Total	-	328,018	-	328,018

The value obtained from any relevant valuation model may differ with a transaction price of a financial instrument. The difference between the transaction price and the model value is commonly referred to as 'day one profit and loss'. It is either amortized over the life of the transaction, deferred until the instrument's fair value, can be determined using market observable data, or realized through disposal. Subsequent changes in fair value are recognized immediately in the interim consolidated statement of comprehensive income without reversal of deferred day one profits and losses.

The total amount of the changes in fair value recognized in the September 30, 2021 interim consolidated statement of income, which was estimated using valuation models, is SAR 121.5 million loss (September 30, 2020: SAR 22.5 million loss).

Level 2 investments include debt securities which are comprised of Saudi corporate and bank securities, and Saudi Arabian Government securities. These securities are generally unquoted. In the absence of a quoted price in an active market, these securities are valued using observable inputs such as yield information for similar instruments or last executed transaction prices in securities of the same issuer or based on indicative market quotes. Adjustments are also considered as part of the valuations when necessary to account for the different features of the instruments including difference in tenors. Because the significant inputs for these investments are observable, the Bank categorizes these investments within Level 2.

Level 2 derivative financial instruments include various derivatives contracts including forward foreign exchange contracts, foreign exchange options, commission rate options, and commission rate swaps. These derivatives are valued using widely recognized valuation models. The most frequently applied valuation techniques include the use of forward pricing standard models using present value calculations and well-recognized Black - Scholes option pricing models. These models incorporate various market observable inputs including foreign exchange rates, forward rates, and yield curves, and are therefore included within Level 2.

Level 3 investments include hedge funds, private equity funds and certain unquoted strategic investments in equities. These securities are generally not quoted in an active market, and therefore are valued using indicative market quotes from an issuer / counter-party or valued at cost in the absence of any such alternative reliable indicative estimate. During the year ended December 31, 2020, certain Gulf Cooperation Council Government securities were transferred from Level 3 to Level 2.

Level 3 derivative financial instruments include the embedded derivative put option arising from an existing master agreement entered into by the Bank relating to its investment in an associated company (see note 15c). For purposes of determining the fair value of the put option, the Bank uses a well-recognized and frequently used Binomial Option Pricing Model. This model requires certain inputs which are not observable in the current market place. Certain inputs are specifically stated within the master agreement with the associated company. Other inputs are based on the historical results of the associated company. These other inputs may require management's judgement including estimations about the future results of the associated company, the detrimental effects on the operating results of the associated company which may arise from an exercise of the option, and an estimate of the fair value of the underlying investment. Several of the inputs are also interdependent.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Amounts in SAR'000
For the nine month periods ended September 30, 2021 and 2020

18. Fair values of financial instruments – continued

Should the significant estimations of inputs vary by plus or minus ten percent, the fair value could increase or decrease by approximately SAR 32.4 million as of September 30, 2021 (September 30, 2020: SAR 84.5 million and December 31, 2020: SAR 60.2 million) due to estimating operating results of the associated company, could increase or decrease by approximately SAR 13.7 million as of September 30, 2021 (September 30, 2020: SAR 39.7 million and December 31, 2020: SAR 26.1 million) due to estimating the detrimental effects on the operating results of the associated company which may arise from an exercise of the option, and could increase or decrease by approximately SAR 24.2 million as of September 30, 2021 (September 30, 2020: SAR 34.9 million and December 31, 2020: SAR 24.2 million) due to estimating the fair value of the underlying investment.

In all respects, the Group's significant estimates are based on experience and judgement relevant to each input, and in all cases, due care is taken to ensure that the inputs are prudent to ensure that the estimation of fair value is reasonable in the circumstances. However, any amounts which may be realized in the future may differ from the Group's estimates of fair value.

- c) The movement of the Level 3 fair values for the nine month periods ended September 30, 2021 and 2020, and for the year ended December 31, 2020 is summarized as follows:

	Sep. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Sep. 30, 2020 (Unaudited)
Fair values at the beginning of the year / period	397,016	939,020	939,020
Net change in fair value	(125,731)	(88,098)	(27,414)
Transfers to Level 2	-	(453,906)	-
Fair values at the end of the year / period	<u>271,285</u>	<u>397,016</u>	<u>911,606</u>

There were no transfers from either level 1 or level 2 to either level 2 or level 3 during the nine month periods ended September 30, 2021 and 2020.

- d) The estimated fair values of financial assets and financial liabilities as of September 30, 2021, and 2020 and as of December 31, 2020 that are not carried at fair value in the interim condensed consolidated financial statements, along with the comparative carrying amounts for each are summarized as follows:

	Sep. 30, 2021 (Unaudited)	
	Carrying values	Estimated fair values
Financial assets:		
Due from banks and other financial institutions, net	1,407,134	1,407,134
Loans and advances, net	58,290,449	62,691,072
Total	<u>59,697,583</u>	<u>64,098,206</u>
Financial liabilities:		
Due to banks and other financial institutions, net	20,036,584	20,036,584
Customers' deposits	60,890,486	60,428,999
Total	<u>80,927,070</u>	<u>80,465,583</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Amounts in SAR'000
For the nine month periods ended September 30, 2021 and 2020

18. Fair values of financial instruments – continued

	Dec. 31, 2020 (Audited)	
	Carrying values	Estimated fair values
Financial assets:		
Due from banks and other financial institutions, net	2,166,742	2,166,742
Loans and advances, net	<u>55,073,894</u>	<u>59,325,028</u>
Total	<u>57,240,636</u>	<u>61,491,770</u>
Financial liabilities:		
Due to banks and other financial institutions, net	20,073,084	20,073,084
Customers' deposits	60,143,589	59,715,600
Term loans	<u>2,006,169</u>	<u>2,006,169</u>
Total	<u>82,222,842</u>	<u>81,794,853</u>
	Sep. 30, 2020 (Unaudited)	
	Carrying values	Estimated fair values
Financial assets:		
Due from banks and other financial institutions, net	1,669,743	1,669,743
Loans and advances, net	<u>57,722,734</u>	<u>61,864,957</u>
Total	<u>59,392,477</u>	<u>63,534,700</u>
Financial liabilities:		
Due to banks and other financial institutions, net	19,430,684	19,430,684
Customers' deposits	59,840,969	59,436,921
Term loans	<u>2,017,486</u>	<u>2,017,486</u>
Total	<u>81,289,139</u>	<u>80,885,091</u>

The estimated fair values of loans and advances, net are calculated using market based discounted cash flow models of individual loan portfolios using the weighted average estimated maturities of each individual loan portfolio. The estimated fair values of customers' deposits are calculated using market based discounted cash flow models of individual deposit classes using the weighted average estimated maturities of each individual deposit class. These fair value estimates are considered as level 3 in the fair value hierarchy.

The fair values of other financial instruments that are not carried in the interim condensed consolidated financial statements at fair value are not significantly different from the carrying values. The fair values of term loans, due from banks and other financial institutions and due to banks and other financial institutions which are carried at amortized cost, are not significantly different from the carrying values included in the interim condensed consolidated financial statements, since the current market special commission rates for similar financial instruments are not significantly different from the special commission rates at initial recognition, and because of the short duration of due from banks and other financial institutions.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Amounts in SAR'000
For the nine month periods ended September 30, 2021 and 2020

19. Credit and financial risk management

a) Credit Risk

The Group manages its 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 customer lending activities that lead to loans and advances, and other investment activities. There is also credit risk in off consolidated statement of financial position financial instruments, such as loan commitments and financial guarantee contracts. The Group assesses the Probability of Default (PD) of counterparties using internal rating tools which can be mapped to external ratings where available. The Group'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 Group assesses wholesale counterparties using the same techniques as for its lending activities to clients.

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

The Group has a comprehensive Board approved framework for managing credit risk which includes an independent credit risk review function and credit risk monitoring process. The Group seeks to control credit risk by monitoring credit exposures, limiting concentration risks, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Group's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are regularly monitored. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk.

b) Credit Risk management

The Group seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations, business, or economic sectors.

The Group uses a credit classification system as a tool to assist in managing the quality of credit risk within the lending portfolio. It maintains classification grades that differentiate between portfolios and allocates expected credit loss allowances. The Group determines each individual borrower's grade based on specific objective and subjective financial and business assessment criteria covering debt service, profitability, liquidity, capital structure, industry, management quality, and company standing. The Group conducts periodic quality classification exercises over all of its existing borrowers and the results of these exercises are validated by the independent risk management unit established for that purpose. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products, external economic environment, emerging best practices, and regulatory guidance.

c) Credit Risk Mitigation ("CRM")

The Group in the ordinary course of lending activities holds collateral as security for Credit Risk Mitigation (CRM) on its lending portfolio. The collateral includes primarily time, demand, and other cash deposits, financial guarantees, local and international equities, real estate, and other assets. The collateral is held mainly against commercial and similar loans and is managed against relevant exposures at their net realizable value. Management monitors the market value of collateral, requests additional collateral in accordance with underlying agreements, and assesses the adequacy of the allowance for credit losses. The Group also seeks additional collateral from counterparties when impairment indicators are observed.

THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Amounts in SAR'000

For the nine month periods ended September 30, 2021 and 2020

19. Credit and financial risk management - continued

d) Reconciliations of gross carrying amounts and allowance for credit losses

Combined – Financial Assets and Financial guarantee contracts

A combined reconciliation from the opening to the closing balances of the gross carrying amounts and allowances for credit losses for all financial assets and financial guarantee contracts for the nine month periods ended September 30, 2021 and 2020 is summarized as follows:

Sep. 30, 2021 (Unaudited)

	Gross Carrying Amounts SAR'000				Allowances for credit losses SAR '000			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balances as of December 31, 2020	93,642,597	4,537,036	2,861,364	101,040,997	576,288	262,844	1,161,708	2,000,840
Transfers from Stage 1 to Stage 2	(1,302,207)	1,302,207	-	-	(17,123)	109,298	-	92,175
Transfers from Stage 1 to Stage 3	(79,969)	-	79,969	-	(1,619)	-	36,899	35,280
Transfers from Stage 2 to Stage 1	512,792	(512,792)	-	-	6,169	(19,532)	-	(13,363)
Transfers from Stage 2 to Stage 3	-	(211,571)	211,571	-	-	(61,131)	104,346	43,215
Transfers from Stage 3 to Stage 1	13,898	-	(13,898)	-	76	-	(4,986)	(4,910)
Transfers from Stage 3 to Stage 2	-	2,883	(2,883)	-	-	948	(1,767)	(819)
Post-model overlays (note 28)	-	-	-	-	(21,914)	22,362	(12,431)	(11,983)
Changes in exposures and re-measurements	1,565,087	125,858	(78,142)	1,612,803	25,971	93,295	(33,256)	86,010
Net movement for the period	709,601	706,585	196,617	1,612,803	(8,440)	145,240	88,805	225,605
Write-offs, net	-	-	(41,165)	(41,165)	-	-	(41,165)	(41,165)
Balances as of September 30, 2021	94,352,198	5,243,621	3,016,816	102,612,635	567,848	408,084	1,209,348	2,185,280

Sep. 30, 2020 (Unaudited)

	Gross Carrying Amounts SAR'000				Allowances for credit losses SAR '000			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balances as of December 31, 2019	91,333,369	5,666,420	3,745,623	100,745,412	520,621	211,545	1,922,949	2,655,115
Transfers from Stage 1 to Stage 2	(641,244)	641,244	-	-	(8,823)	19,831	-	11,008
Transfers from Stage 1 to Stage 3	(263,020)	-	263,020	-	(1,862)	-	128,714	126,852
Transfers from Stage 2 to Stage 1	763,061	(763,061)	-	-	7,865	(8,071)	-	(206)
Transfers from Stage 2 to Stage 3	-	(3,636)	3,636	-	-	(186)	1,713	1,527
Transfers from Stage 3 to Stage 1	17,630	-	(17,630)	-	116	-	(1,757)	(1,641)
Transfers from Stage 3 to Stage 2	-	3,274	(3,274)	-	-	144	(1,110)	(966)
Post-model overlays (note 28)	-	-	-	-	109,582	31,819	49,712	191,113
Changes in exposures and re-measurements	2,604,198	(442,398)	(6,529)	2,155,271	(30,731)	11,746	72,266	53,281
Net movement for the period	2,480,625	(564,577)	239,223	2,155,271	76,147	55,283	249,538	380,968
Write-offs, net	-	-	(87,404)	(87,404)	-	-	(87,404)	(87,404)
Balances as of September 30, 2020	93,813,994	5,101,843	3,897,442	102,813,279	596,768	266,828	2,085,083	2,948,679

THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Amounts in SAR'000

For the nine month periods ended September 30, 2021 and 2020

19. Credit and financial risk management - continued

d) Reconciliations of gross carrying amounts and allowance for credit losses - continued

Due from banks and other financial institutions

A reconciliation from the opening to the closing balances of the gross carrying amounts and allowances for credit losses for due from banks and other financial institutions for the nine month periods ended September 30, 2021 and 2020 is summarized as follows:

	Sep. 30, 2021 (Unaudited)							
	Gross Carrying Amounts SAR'000				Allowances for credit losses SAR '000			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balances as of December 31, 2020	2,169,016	928	-	2,169,944	3,092	110	-	3,202
Changes in exposures and re-measurements	(758,743)	(6)	-	(758,749)	859	-	-	859
Balances as of September 30, 2021	1,410,273	922	-	1,411,195	3,951	110	-	4,061

	Sep. 30, 2020 (Unaudited)							
	Gross Carrying Amounts SAR'000				Allowances for credit losses SAR '000			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balances as of December 31, 2019	3,027,595	3,008	-	3,030,603	1,730	358	-	2,088
Transfers from Stage 2 to Stage 1	2,346	(2,346)	-	-	14	(279)	-	(265)
Changes in exposures and re-measurements	(1,358,315)	41	-	(1,358,274)	758	5	-	763
Net movement for the period	(1,355,969)	(2,305)	-	(1,358,274)	772	(274)	-	498
Balances as of September 30, 2020	1,671,626	703	-	1,672,329	2,502	84	-	2,586

THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Amounts in SAR'000

For the nine month periods ended September 30, 2021 and 2020

19. Credit and financial risk management - continued

d) Reconciliations of gross carrying amounts and allowance for credit losses - continued

Investments – debt securities

A reconciliation from the opening to the closing balances of the gross carrying amounts and allowances for credit losses for debt securities for the nine month periods ended September 30, 2021 and 2020 is summarized as follows:

	Sep. 30, 2021 (Unaudited)							
	Gross Carrying Amounts SAR'000				Allowances for credit losses SAR '000			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balances as of December 31, 2020	29,959,909	-	-	29,959,909	31,385	-	-	31,385
Changes in exposures and re-measurements	(1,164,253)	-	-	(1,164,253)	333	-	-	333
Balances as of September 30, 2021	28,795,656	-	-	28,795,656	31,718	-	-	31,718

	Sep. 30, 2020 (Unaudited)							
	Gross Carrying Amounts SAR'000				Allowances for credit losses SAR '000			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balances as of December 31, 2019	25,747,421	-	-	25,747,421	29,659	-	-	29,659
Changes in exposures and re-measurements	2,884,308	-	-	2,884,308	3,742	-	-	3,742
Balances as of September 30, 2020	28,631,729	-	-	28,631,729	33,401	-	-	33,401

THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Amounts in SAR'000

For the nine month periods ended September 30, 2021 and 2020

19. Credit and financial risk management - continued

d) Reconciliations of gross carrying amounts and allowance for credit losses - continued

Financial guarantee contracts

A reconciliation from the opening to the closing balances of the gross carrying amounts and allowances for credit losses for financial guarantee contracts for the nine month periods ended September 30, 2021 and 2020 is summarized as follows:

	Sep. 30, 2021 (Unaudited)				Sep. 30, 2021 (Unaudited)			
	Gross Carrying Amounts SAR'000				Allowances for credit losses SAR '000			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balances as of December 31, 2020	11,247,291	357,503	403,336	12,008,130	98,240	19,579	92,735	210,554
Transfers from Stage 1 to Stage 2	(133,424)	133,424	-	-	(4,033)	8,862	-	4,829
Transfers from Stage 2 to Stage 1	52,905	(52,905)	-	-	691	(3,254)	-	(2,563)
Transfers from Stage 2 to Stage 3	-	(7)	7	-	-	-	1	1
Transfers from Stage 3 to Stage 2	-	519	(519)	-	-	23	(182)	(159)
Changes in exposures and re-measurements	(60,869)	132,632	(5,908)	65,855	3,362	(3,352)	(2,594)	(2,584)
Net movement for the period	(141,388)	213,663	(6,420)	65,855	20	2,279	(2,775)	(476)
Balances as of September 30, 2021	11,105,903	571,166	396,916	12,073,985	98,260	21,858	89,960	210,078
	Sep. 30, 2020 (Unaudited)				Sep. 30, 2020 (Unaudited)			
	Gross Carrying Amounts SAR'000				Allowances for credit losses SAR '000			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balances as of December 31, 2019	11,366,900	664,557	385,703	12,417,160	109,335	26,675	81,387	217,397
Transfers from Stage 1 to Stage 2	(31,226)	31,226	-	-	(102)	1,189	-	1,087
Transfers from Stage 1 to Stage 3	(35,995)	-	35,995	-	(403)	-	16,508	16,105
Transfers from Stage 2 to Stage 1	53,770	(53,770)	-	-	3,334	(4,721)	-	(1,387)
Transfers from Stage 2 to Stage 3	-	(2,509)	2,509	-	-	(167)	1,177	1,010
Changes in exposures and re-measurements	(278,428)	(88,178)	(20,858)	(387,464)	(9,680)	(3,743)	(9,015)	(22,438)
Net movement for the period	(291,879)	(113,231)	17,646	(387,464)	(6,851)	(7,442)	8,670	(5,623)
Balances as of September 30, 2020	11,075,021	551,326	403,349	12,029,696	102,484	19,233	90,057	211,774

THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Amounts in SAR'000

For the nine month periods ended September 30, 2021 and 2020

19. Credit and financial risk management - continued

d) Reconciliations of gross carrying amounts and allowance for credit losses - continued

Other assets – customer and other receivables

A reconciliation from the opening to the closing balances of the gross carrying amounts and allowances for credit losses for customer and other receivables, included in other assets, for the nine month periods ended September 30, 2021 and 2020 is summarized as follows:

	Sep. 30, 2021 (Unaudited)							
	Gross Carrying Amounts SAR'000				Allowances for credit losses SAR '000			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balances as of December 31, 2020	73,696	-	-	73,696	275	-	-	275
Changes in exposures and re-measurements	28,353	-	-	28,353	(153)	-	-	(153)
Balances as of September 30, 2021	102,049	-	-	102,049	122	-	-	122

	Sep. 30, 2020 (Unaudited)							
	Gross Carrying Amounts SAR'000				Allowances for credit losses SAR '000			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balances as of December 31, 2019	31,736	-	-	31,736	386	-	-	386
Changes in exposures and re-measurements	24,934	-	-	24,934	411	-	-	411
Balances as of September 30, 2020	56,670	-	-	56,670	797	-	-	797

The transfer amounts in the above reconciliations represent the net increase or decrease in the allowance for credit losses as a result of transfers between stages during the nine month periods ended September 30, 2021 and 2020.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Amounts in SAR'000
For the nine month periods ended September 30, 2021 and 2020

20. Basic and diluted earnings per share

- a) Basic and diluted earnings per share is calculated by dividing net income adjusted for Tier I Sukuk costs by weighted average number of the issued and outstanding shares after giving effect to the purchase and issuance of 74.9 million treasury shares.
- b) Details of basic and diluted earnings per share for the three month and nine month periods ended September 30, 2021 and 2020 are as follows:

	Three month period ended		Nine month period ended	
	Sep. 30, 2021	Sep. 30, 2020	Sep. 30, 2021	Sep. 30, 2020
Net income	274,345	301,373	775,610	714,351
Tier I Sukuk costs	(15,334)	(15,333)	(70,518)	(76,254)
Net income adjusted for Tier I Sukuk costs	259,011	286,040	705,092	638,097
Weighted average number of outstanding shares (in '000)	711,158	688,505	696,139	688,505
Basic and diluted earnings per share (SAR)	0.36	0.42	1.01	0.93

The weighted average number of outstanding shares have been retrospectively adjusted for prior period to reflect the effect of the changes in number of shares due to bonus element included in the treasury shares issued.

21. Capital adequacy

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

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

The following table summarizes the Bank's Pillar I Risk Weighted Assets (RWA), Tier I and Tier II Capital, and corresponding Capital adequacy ratio percentages as of September 30, 2021 and 2020 and as of December 31, 2020.

	Sep. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Sep. 30, 2020 (Unaudited)
Credit Risk RWA	78,906,762	72,782,528	73,172,379
Operational Risk RWA	5,112,624	5,112,624	5,061,360
Market Risk RWA	194,616	1,642,306	2,125,382
Total Pillar- I RWA	84,214,002	79,537,458	80,359,121
Tier I Capital	17,492,322	16,135,294	15,610,800
Tier II Capital	646,319	730,973	741,700
Total Tier I plus Tier II Capital	18,138,641	16,866,267	16,352,500
Capital Adequacy Ratios:			
Tier I Ratio	20.77%	20.29%	19.43%
Tier I plus Tier II Ratio	21.54%	21.21%	20.35%

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Amounts in SAR'000
For the nine month periods ended September 30, 2021 and 2020

21. Capital adequacy – continued

The Tier I and Tier II capital as of September 30, 2021 and 2020 and as of December 31, 2020 is comprised of the following:

	Sep. 30, 2021 <u>(Unaudited)</u>	Dec. 31, 2020 <u>(Audited)</u>	Sep. 30, 2020 <u>(Unaudited)</u>
Total Equity	16,688,061	15,331,033	14,806,539
IFRS 9 transitional adjustment	822,556	822,556	822,556
Goodwill adjustment	<u>(18,295)</u>	<u>(18,295)</u>	<u>(18,295)</u>
Tier I Capital	<u>17,492,322</u>	<u>16,135,294</u>	<u>15,610,800</u>
Qualifying general provisions, net	<u>646,319</u>	<u>730,973</u>	<u>741,700</u>
Tier II Capital	<u>646,319</u>	<u>730,973</u>	<u>741,700</u>
Tier I plus Tier II Capital	<u><u>18,138,641</u></u>	<u><u>16,866,267</u></u>	<u><u>16,352,500</u></u>

Capital adequacy and the use of Regulatory capital are regularly monitored by the Bank's management. SAMA requires the Bank to hold a minimum level of regulatory capital and maintain a ratio of total Regulatory capital to Risk Weighted Assets (RWA) at or above the requirement of 10.5%, which includes additional buffers as required by the Basel Committee on Banking Supervision.

As of September 30, 2021 and 2020, and as of December 31, 2020, the RWA, Tier I and Tier II capital, and capital adequacy ratios are calculated in accordance with SAMA's framework and guidelines regarding implementation of the capital reforms under Basel III.

SAMA under its circular no. 391000029731 dated 15 Rabi Al Awwal 1439H (corresponding to December 3, 2017) on the ECL accounting transitional arrangement for regulatory capital, allowed banks to transition the Day 1 impact of IFRS 9 on regulatory capital over five years by using a dynamic approach to reflect the impact of the transition.

In April 2020, SAMA issued a guidance document entitled "Guidance on Accounting and Regulatory Treatment of COVID-19 - Extraordinary Support Measures". Under the guidance, banks have been allowed to add-back up to 100% of the Day 1 impact of IFRS 9 as a transitional adjustment amount to Common Equity Tier 1 (CET1) for the two year periods comprising 2020 and 2021. The add-back amount is then required to be phased-out on a straight-line basis over the subsequent 3 years. In this respect, the Group has opted to apply the transitional adjustment, and has included the Day 1 impact of IFRS 9 in its Tier I regulatory capital. As a result, the IFRS 9 transitional adjustment add back has increased to SAR 822.5 million as of September 30, 2021 and 2020 and as of December 31, 2020.

b) The following additional disclosures are required under the Basel III framework.

- Pillar III, Qualitative disclosures (Annually);
- Pillar III, Quantitative disclosures (Semi-annually);
- Capital Structure (Quarterly);
- Liquidity Coverage Ratio (Quarterly);
- Leverage Ratio (Quarterly)

These disclosures are made available to the public on the Bank's website within the prescribed time frames as required by SAMA.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Amounts in SAR'000
For the nine month periods ended September 30, 2021 and 2020

22. Related party disclosures

- a) In the ordinary course of its activities, the Group transacts business with related parties. Related parties, balances, and transactions are governed by the Banking Control Law and other regulations issued by SAMA. During 2021, SAMA issued Key Principles and during 2019, SAMA issued rules on Banks exposures to Related Parties. In February 2020, SAMA revised the Related Parties Rules for Banks. These rules specify the definitions of related parties, the need to process the related transactions fairly and without preference, addresses the potential conflicts of interests involved in such transactions, and mandates transaction disclosure requirements pertaining to the related parties.

The Bank's related party identification and disclosure of transactions policy complies with the rules and guidelines issued by SAMA, and has been approved by the Bank's Board of Directors. These guidelines include the following definitions of related parties:

- Management of the Bank, their relatives and/or their affiliated entities;
- Principal shareholders of the Bank and its management;
- Affiliates of the Bank, entities for which the investment is accounted for using the equity method of accounting, their management and relatives;
- Trusts for the benefit of the Bank's employees such as pension or other benefit plans that are managed by the Bank; and
- Any other parties whose management and operating policies can be directly or indirectly significantly influenced by the Bank.

Management of the Bank includes those persons who are responsible for achieving the objectives of the Bank and who have the authority to establish policies and make decisions by which those objectives are pursued. Management therefore includes the members of the Bank's Board of Directors, CEO, GMs, their deputies, CFO, Managers of key departments, officers of risk management, Internal audit, and Compliance functions, and similar positions in the Financial Institution, in addition to incumbents of any other positions determined by SAMA.

Principal shareholders include those owners of record of more than five percent of the Bank's voting ownership and/or voting interest of the Bank.

Relatives include spouses, children, parents, grandparents, siblings, grandchildren, and offspring to whom a member of management of either the Bank, principal shareholder, or affiliate, might control or influence or by whom they might be controlled or influenced, because of the family relationship.

- b) The balances as of September 30, 2021 and 2020 and as of December 31, 2020, resulting from such transactions included in the interim condensed consolidated financial statements are as follows:

	Sep. 30, 2021 <u>(Unaudited)</u>	Dec. 31, 2020 <u>(Audited)</u>	Sep. 30, 2020 <u>(Unaudited)</u>
Management of the Bank, their relatives and/or their affiliated entities:			
Loans and advances	662,201	804,421	286,839
Customers' deposits	422,853	469,228	78,798
Tier I Sukuk	7,000	7,000	7,000
Commitments and contingencies	354,842	306,912	1,366
Investments	419,786	429,675	-
Principal shareholders of the Bank and its management:			
Customers' deposits	505,595	760,091	777,832
Tier I Sukuk	30,000	30,000	30,000

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Amounts in SAR'000
For the nine month periods ended September 30, 2021 and 2020

22. Related party disclosures - continued

	Sep. 30, 2021 <u>(Unaudited)</u>	Dec. 31, 2020 <u>(Audited)</u>	Sep. 30, 2020 <u>(Unaudited)</u>
Affiliates of the Bank, entities for which the investment is accounted for by the equity method of accounting, their management and relatives:			
Loans and advances	811,578	732,527	887,660
Customers' deposits	387,998	381,956	564,231
Tier I Sukuk	5,000	5,000	5,000
Commitments, contingencies and derivatives	100,050	102,050	112,764
Trusts for the benefit of the Bank's employees such as pension or other benefits plans that are managed by the Bank:			
Customers' deposits and other liabilities	315,757	264,141	235,904
c) Income and expense for the nine month periods ended September 30, 2021 and 2020, pertaining to transactions with related parties included in the interim condensed consolidated financial statements are as follows:			
		Sep. 30, 2021 <u>(Unaudited)</u>	Sep. 30, 2020 <u>(Unaudited)</u>
Management of the Bank, their relatives and/or their affiliated entities:			
Special commission income		13,805	3,140
Special commission expense		4,345	24
Fee income from banking services		119	13
Other expenses		8,580	-
Principal shareholders of the Bank and its management:			
Special commission expense		244	292
Rent and premises-related expenses (Building rental)		5,738	5,738
Other expenses		3,290	-
Affiliates of the Bank, entities for which the investment is accounted for by the equity method of accounting, their management and relatives:			
Special commission income		22,419	14,693
Special commission expense		373	3,667
Fee income from banking services		1,723	2,042
Board of Directors and other Board Committee member remuneration		5,654	5,890

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Amounts in SAR'000
For the nine month periods ended September 30, 2021 and 2020

23. Tier I Sukuk

The Bank completed the establishment of a Shari'a compliant Tier I Sukuk Program (the Program) in 2016. The Program was approved by the Bank's regulatory authorities and shareholders. The Bank has issued the following Tier I Sukuk securities under the Program on the dates indicated as of September 30, 2021 and 2020 and as of December 31, 2020:

	Sep. 30, 2021 (Unaudited)	Dec. 31, 2020 (Audited)	Sep. 30, 2020 (Unaudited)
November 16, 2016	500,000	500,000	500,000
June 6, 2017	285,000	285,000	285,000
March 21, 2018	1,000,000	1,000,000	1,000,000
April 15, 2019	215,000	215,000	215,000
Total	<u>2,000,000</u>	<u>2,000,000</u>	<u>2,000,000</u>

The Tier I Sukuk securities are perpetual with no fixed redemption dates and represent an undivided ownership interest in the Sukuk assets, constituting an unsecured conditional and subordinated obligation of the Bank classified under equity. However, the Bank has the exclusive right to redeem or call the Tier I Sukuk debt securities in a specific period of time, subject to the terms and conditions stipulated in the Program.

The applicable profit rate on the Tier I Sukuk is payable in arrears on each periodic distribution date, except upon the occurrence of a non-payment event or non-payment election by the Bank, whereby the Bank may at its sole discretion (subject to certain terms and conditions) elect not to make any distributions. Such a non-payment event or non-payment election are not considered to be an event of default and the amounts not paid thereof shall not be accumulated or compounded with any future distributions.

24. Zakat and Income tax

- a) The Bank's share capital and percentages of ownership as of September 30, 2021 and 2020 and as of December 31, 2020 are summarized as follows in SAR millions. The Bank's Zakat and Income tax calculations and corresponding accruals and payments of Zakat and Income tax are based on the below ownership percentages:

	Sep. 30, 2021 (Unaudited)		Dec. 31, 2020 (Audited)		Sep. 30, 2020 (Unaudited)	
	Amount	%	Amount	%	Amount	%
Saudi shareholders	7,500	100	6,750	90	6,750	90
Treasury shares (note 26)	-	-	750	10	750	10
Total	<u>7,500</u>	<u>100</u>	<u>7,500</u>	<u>100</u>	<u>7,500</u>	<u>100</u>

- b) The Bank has filed the required Zakat declarations with the Zakat, Tax and Customs Authority ("ZATCA") which are due on April 30 each year, through the year ended December 31, 2020. The Bank's Zakat and Income tax calculations and corresponding accruals and payments for Zakat and Income tax are based on the ownership percentages disclosed in note 24a.

On March 14, 2019, the ZATCA published rules (the "Rules") for the computation of Zakat for companies engaged in financing activities and licensed by SAMA. The Rules are issued pursuant to the Zakat Implementing Regulations and are applicable for the periods beginning January 1, 2019. In addition to providing a new basis for calculation of the Zakat base, the Rules have also introduced a minimum floor and maximum cap at 4 times and 8 times respectively of net income. The Zakat liability for the Saudi shareholders will continue to be calculated at 2.5% of the Zakat base but it will not fall below the minimum floor nor would exceed the maximum cap as prescribed by the Rules.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Amounts in SAR'000
For the nine month periods ended September 30, 2021 and 2020

24. Zakat and Income tax - continued

- c) Provisions for Zakat and Income tax for the three month and nine month periods ended September 30, 2021 and 2020 is summarized as follows:

	Three month period ended		Nine month period ended	
	Sep. 30, 2021	Sep. 30, 2020	Sep. 30, 2021	Sep. 30, 2020
Provisions for Zakat – current charge	67,837	80,193	177,551	174,484
Reversal for Zakat – prior period (note 24d)	-	-	(33,782)	-
Provisions for Zakat	67,837	80,193	143,769	174,484

- d) Under the SAMA support programs and initiatives, the Bank received long-term commission free deposits from SAMA. These deposits are intended to compensate for the related costs that the Bank is expected to incur under the SAMA and other public authorities program. As per the Zakat regulations in KSA, all long-term liabilities are included as a Zakatable source of funds for the calculation of Zakat charge. Accordingly, zakat was calculated and paid on these long-term commission free deposits to ZATCA for the year ended December 31, 2020. During the nine month period ended September 30, 2021, the Bank received a confirmation from the concerned authorities to not include these long-term deposits from the Zakatable source of funds considering the purpose of these deposits. The confirmation is treated as a change in estimate and accordingly, the Bank has reversed the additional Zakat paid on long-term deposits in the consolidated statement of income for the nine month period ended September 30, 2021.
- e) During 2018, the Bank agreed to settle prior year Zakat assessments with the ZATCA for the years 2006 to 2017. The settlement totaled SAR 775 million. The outstanding balance of approximately SAR 372 million is payable in equal annual instalments on December 1, 2021 and on December 1 of each year thereafter through the year 2023.

25. Dividends

During 2021, the Board of Directors proposed a cash dividend of SAR 270.0 million equal to SAR 0.4 per share. The proposed cash dividend was approved by the Bank's shareholders in an extraordinary general assembly meeting held on April 21, 2021. The dividends were paid to the Bank's shareholders starting from May 2, 2021.

26. Treasury shares

On June 14, 2018, the Bank entered into a Share Purchase Agreement with J.P. Morgan International Finance Limited (JP Morgan), to purchase 56,245,350 shares of the Bank owned by JP Morgan for SAR 13.50 per share equal to SAR 759.3 million, exclusive of transaction costs and estimated Income tax. The Bank subsequently received all required regulatory approvals and the agreement to purchase the shares was approved in an Extraordinary General Assembly meeting held on 16 Muharram 1440H, corresponding to September 26, 2018. On September 27, 2018, the Bank completed the purchase. The Treasury shares purchased include transaction costs and estimated income tax for a total cost of SAR 787.5 million.

On November 29, 2018, the Bank entered into a Share Purchase Agreement with Mizuho Bank Ltd. (Mizuho), to purchase another 18,749,860 shares of the Bank owned by Mizuho for SAR 13.50 per share equal to SAR 253.1 million, exclusive of transaction costs and estimated Income Tax. The Bank received all regulatory approvals for the purchase, and the agreement to purchase the shares was approved in an Extraordinary General Assembly Meeting held on 21 Rajab, 1440H, corresponding to March 28, 2019. On May 28, 2019, the Bank completed the purchase. The Treasury shares purchased include transaction costs for a total cost of SAR 253.5 million.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Amounts in SAR'000
For the nine month periods ended September 30, 2021 and 2020

26. Treasury shares - continued

The share capital of the Bank has not been reduced as a result of these transactions with the cost of the shares purchased totaling SAR 1,041.1 million presented as a reduction of shareholders' equity.

During the three month period ended September 30, 2021, the Bank issued all of the treasury shares by the way of right shares and rump offering. The total proceeds from the sale of treasury shares amounted to SAR 1.03 billion.

27. Operating expenses

Provisions for credit and other losses for the three month and nine month periods ended September 30, 2021 and 2020 is summarized as follows:

	Three month period ended		Nine month period ended	
	Sep. 30, 2021	Sep. 30, 2020	Sep. 30, 2021	Sep. 30, 2020
Due from banks and other financial institutions (note 6b)	(264)	338	859	498
Investments (note 7c)	(724)	2,153	333	3,742
Loans and advances (note 8b)	50,037	69,986	225,042	381,940
Financial guarantee contracts (note 16c)	2,012	(15,368)	(476)	(5,623)
Other assets (note 11b)	(32)	187	(153)	411
Provisions for credit and other losses	<u>51,029</u>	<u>57,296</u>	<u>225,605</u>	<u>380,968</u>

28. Impact of COVID-19 on ECL and SAMA Programs

The Coronavirus ("COVID-19") pandemic ("the pandemic") continues to disrupt global markets as many geographies are experiencing multiple waves of infection 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 KSA ("the Government"), however, has managed to successfully control the outbreak, owing primarily to the effective measures taken by the Government.

During 2020, the management performed a detailed assessment to ascertain the impact of the pandemic and resultant government and SAMA support measures, such as repayment holidays and other mitigating packages, have had on the financing portfolio. The Bank continues to assess and reflect appropriately:

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

The Bank also continues to evaluate the current situation through conducting stress-tests on expected movements of oil prices and other macroeconomic variables and their impact on key credit, liquidity, operational, solvency and performance indicators in addition to other risk management practices to manage the impact of COVID-19 outbreak on its normal operations and financial performance. The steps taken by management includes ongoing review of credit exposure concentrations at a more granular level with particular focus on specific economic sectors, regions, counterparties and collateral protection and taking appropriate customer credit rating actions and initiating restructuring of loans, where required. The credit reviews also take into consideration the impact of the Government and SAMA support programs.

The prevailing economic conditions which are severely affected by the ongoing pandemic, require the Bank to revise certain inputs and assumptions used for the determination of Expected Credit Losses ("ECL"). These primarily revolve around either adjusting macroeconomic factors used by the Group in the estimation of expected credit losses or revisions to the scenario probabilities currently being used by the Bank in ECL estimation. During 2020, the Group made certain adjustments to the macroeconomic factors and scenario weightings.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Amounts in SAR'000
For the nine month periods ended September 30, 2021 and 2020

28. Impact of COVID-19 on ECL and SAMA Programs - continued

The Bank's ECL model continues to be sensitive to the above assumptions and is continually reassessed as part of its normal model refinement exercise. As with any forecasts, the projections and likelihoods of occurrence are underpinned by significant judgement and uncertainty and therefore, the actual outcomes may be different to those projected.

To the extent that certain effects cannot be fully incorporated into the ECL model calculations at this point in time, Management continues to exercise expert credit judgement to estimate ECL by considering reasonable and supportable information not already included in the quantitative models. Accordingly, management's ECL assessment includes a sector-based assessment and staging analysis depending on the impacted portfolios and macroeconomic analysis. The Bank has therefore recognized post-model overlays of SAR 96.8 million, SAR 75.6 million and SAR 14.4 million as of September 30, 2021 for its corporate, MSME and retail loans and advances portfolio respectively. The Bank will continue to reassess the need for additional overlays as more reliable data becomes available and accordingly determine if any adjustment to the ECL allowance is required in subsequent reporting periods.

SAMA support programs and initiatives

Private Sector Financing Support Program ("PSFSP")

In response to the pandemic, SAMA launched the Private Sector Financing Support Program ("PSFSP") in March 2020 to provide the necessary support to Micro Small and Medium Enterprises ("MSME") as per the definition issued by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H (corresponding to March 15, 2017). 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.

Deferred payment program

As part of the deferred payments program launched by SAMA in March 2020 and with the extensions to the program subsequently announced, the Bank is required to defer payments on lending facilities to those companies that qualify as MSMEs. The payment reliefs are considered as short-term liquidity support to address the borrower's potential cash flow issues. The Bank has effected the payment reliefs by deferring the instalments falling due within the period from March 14, 2020 to June 30, 2021, and increasing the facility tenors accordingly at no additional costs to the customer.

Further to the above, SAMA on June 22, 2021 announced the extension of the DPP for three additional months from July 1, 2021 to September 30, 2021, for MSMEs that are still impacted by the COVID-19 measures. SAMA clarified that for this extension, MSMEs will be subject to the assessment by the banks to the extent to which these MSMEs are still affected by the COVID-19 precautionary measures, in order to be qualified for the extension in accordance with the DPP guidelines issued by SAMA. Based on the guidelines received from SAMA, the Bank has assessed its MSME portfolio and has accordingly deferred the installments falling due from July 1, 2021 to September 30, 2021 and extended the tenure of the applicable loans at no additional costs to the customer. This resulted in the Group recognizing an additional modification loss of SAR 16.6 million. On September 30, 2021, for these effected MSME customers, a further extension of three additional months was announced by SAMA i.e., for the installment falling due from October 1, 2021 to December 31, 2021 and increasing the facility tenors accordingly. This resulted in the Group recognizing an additional modification loss of SAR 16.4 million.

The accounting impact of these changes has been assessed and treated as per the requirements of IFRS 9 as a modification in terms of arrangement. This resulted in the Bank recognizing total modification losses amounting to SAR 119 million during the nine month period ended September 30, 2021 which was included in special commission income. During the nine month period ended September 30, 2021, SAR 99.1 million has been credited to the interim condensed consolidated statement of income relating to unwinding of modification losses.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Amounts in SAR'000
For the nine month periods ended September 30, 2021 and 2020

28. Impact of COVID-19 on ECL and SAMA Programs - continued

In order to compensate the related cost that the Bank is expected to incur under the SAMA and other public authorities program, the Bank received commission free and commission bearing deposits from SAMA amounting to SAR 3.8 billion and SAR 2.5 billion respectively with varying maturities, which qualify as government grant. Management has determined based on the communication from SAMA that the government grant primarily relates to compensation for the modification loss incurred on the deferral of payments. The benefit of the subsidized funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. The management has exercised certain judgements in the recognition and measurement of this grant income. Total income on these commission free deposits amounted to SAR 455.2 million out of which SAR 317.0 million was recognized in special commission income. During the nine month period ended September 30, 2021, SAR 76.8 million (September 30, 2020: SAR 47.4 million) has been recognized to the interim condensed consolidated statement of income relating to unwinding of day 1 gain.

The Bank continues to believe that in the absence of other factors, participation in the deferment program on its own, is not considered a significant increase in credit risk for assessment of ECL on its MSME portfolio. The Bank has performed an assessment with respect to SICR and recognized an overlay of SAR 75.6 million on its MSME portfolio as of September 30, 2021 as a result of the potential impact of credit risk rating downgrades.

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

Funding for lending and Facility guarantee program

As of September 30, 2021, the Bank has participated in SAMA's facility guarantee program. The Bank has received SAR 70 million from SAMA for providing concessional financing to eligible MSMEs under facility guarantee program. The accounting impact for facility guarantee program is immaterial to the interim condensed consolidated financial statements for the nine month period ended September 30, 2021.

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 Q2 2020, the Bank received a SAR 2.32 billion commission free deposit with a 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 38.4 million, of which SAR 34.7 million was recognized in the consolidated statement of income for the year ended December 31, 2020 and with the remaining amount deferred. This deposit has been repaid during the period ended September 30, 2021.

Bank's initiative - Health care sector support

In recognition of the significant efforts that the healthcare workers are putting in to safeguard the health of our citizens and residents in response to the pandemic, the Bank voluntarily postponed loan payments for three months for all public and private health care workers who had credit facilities with the Bank. This resulted in the Bank recognizing a day 1 modification loss of SAR 8.9 million for the nine month period ended September 30, 2020 which was charged to special commission income.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Amounts in SAR'000
For the nine month periods ended September 30, 2021 and 2020

29. IBOR (“Interbank Offer Rate”) 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”) followed 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 were effective from January 1, 2020 and are mandatory for all hedge relationships directly affected by the IBOR reform. The Group has adopted these amendments along with the hedging relief for pre-replacement hedges.
- Phase 2 – The second phase relates to the replacement of benchmark rates with alternative risk-free rates. Currently, there is uncertainty as to the timing and the methods of transition for phase 2. As a result, IBOR continues to be used as a reference rate in financial markets and therefore is used in the valuation of instruments with maturities that exceed the expected end date for IBOR.

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

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

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

The Group currently has a contracts which reference LIBOR and extend beyond 2021, including swaps which will transition under the ISDA protocols.

The Board established a steering committee, consisting of key finance, risk, IT, treasury, legal and compliance personnel and external advisors, to oversee the Group’s LIBOR transition plan. This steering committee put in place a transition project for those contracts which reference LIBOR to transition them to alternate benchmarks, as applicable, with the aim of minimising the potential disruption to business and mitigating operational and conduct risks and possible financial losses. This transition project is considering changes to systems, processes, risk management and valuation models, as well as managing related tax and accounting implications. As of September 30, 2021, changes required to systems, processes and models have been identified and have been partially implemented. There have been general communications with counterparties, but specific changes to contracts required by IBOR reform have not yet been proposed or agreed.

The Group has identified that the areas of most significant risk arising from the replacement of LIBOR are:

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Amounts in SAR'000
For the nine month periods ended September 30, 2021 and 2020

29. IBOR (“Interbank Offer Rate”) Transition - Interest Rate Benchmark Reforms - continued

The Group is undergoing overall transition activities and is engaging 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.
